Canadian Pacific

Annual Report 1966

Contents

Notice to Shareholders

The Eighty-sixth Annual General Meeting of the Shareholders of this Company, for the election of Directors to take the places of the retiring Directors and for the transaction of business generally, will be held on Wednesday, the third day of May next, at Le Château Champlain, Place du Canada, Montreal, at eleven a.m. (daylight saving time, if operative).

The Ordinary Stock Transfer Books will be closed in Montreal, Toronto, Vancouver, New York, and London at 3.30 p.m. on Tuesday, the eleventh day of April, 1967. The Preference Stock Books will be closed in Montreal, Toronto, Vancouver and London at the same time.

All books will be re-opened on Thursday, the fourth day of May, 1967.

By order of the Board,
T. F. Turner, Secretary
Montreal, March 13, 1967.

Board of Directors and Officers

Directors

W. A. Arbuckle, *Chairman of the Canadian Board of* The Standard Life Assurance Company, Montreal

G. H. Baillie, *Vice-President,* Canadian Pacific Railway Company, Montreal

G. Maxwell Bell, *Chairman,* F.P. Publications Limited, Calgary

Sir George Bolton, KCMG, *Chairman,* Bank of London & South America Limited, London, England

*George W. Bourke, *Chairman of the Board,* Sun Life Assurance Company of Canada, Montreal

F. Philippe Brais, CBE, QC, *Chairman of the Board,* Banque Canadienne Nationale, Montreal

Cyril F. H. Carson, QC, *Partner,* Law Firm of Tilley, Carson, Findlay & Wedd, Toronto

The Honourable J. V. Clyne, *Chairman of the Board and Chief Executive Officer,* MacMillan Bloedel Limited, Vancouver

*N. R. Crump, *Chairman and Chief Executive Officer,* Canadian Pacific Railway Company, Montreal

*S. M. Gossage, *Vice-President,* Canadian Pacific Railway Company, Montreal

G. Arnold Hart, MBE, *Chairman and President,* Bank of Montreal, Montreal

Allard Jiskoot, *Partner,* Pierson, Heldring & Pierson, Amsterdam, The Netherlands

David Kinnear, *Executive Vice-President and Chief Executive Officer,* The T. Eaton Co. Limited, Toronto

*Herbert H. Lank, *Chairman of the Board,* Du Pont of Canada Limited, Montreal

W. Earle McLaughlin, *Chairman and President,* The Royal Bank of Canada, Montreal

James A. Richardson, *Chairman and Chief Executive Officer,* James Richardson & Sons, Limited, Winnipeg

Lucien G. Rolland, *President and General Manager,* Rolland Paper Company, Limited, Montreal

Howard C. Sheperd, *Retired Chairman,* First National City Bank, New York

*Ian D. Sinclair, *President,* Canadian Pacific Railway Company, Montreal

*H. Greville Smith, CBE, *Industrialist,* Montreal

Harold M. Turner, *Chairman of the Board,* The Mutual Life Assurance Company of Canada, Toronto

*H. G. Welsford, MBE, *Chairman of the Board,* Dominion Bridge Company Limited, Montreal

Norman E. Whitmore, *President,* Whitmores Limited, Regina

Henry S. Wingate, *Chairman of the Board and Chief Executive Officer,* The International Nickel Company of Canada, Limited

*Member of Executive Committee

Officers

N. R. Crump, *Chairman and Chief Executive Officer,* Montreal
Ian D. Sinclair, *President,* Montreal
S. M. Gossage, *Vice-President,* Montreal
G. H. Baillie, *Vice-President,* Montreal

F. S. Burbidge, *Vice-President Rail, Administration,* Montreal
K. Campbell, *Vice-President Rail, Staff,* Montreal
D. I. McNeill, QC, *Vice-President, Personnel,* Montreal
H. P. Millar, *Vice-President, Purchases and Stores,* Montreal
J. M. Roberts, *Vice-President, Traffic,* Montreal
W. J. Stenason, *Vice-President, Company Services,* Montreal
F. V. Stone, *Vice-President, Development,* Montreal
G. J. van den Berg, *Vice-President, Finance,* Montreal
J. A. Wright, QC, *Vice-President, Law,* Montreal

J. N. Fraine, *Senior Regional Vice-President, Pacific Region,* Vancouver
G. E. Benoit, *Vice-President, Atlantic Region,* Montreal
D. M. Dunlop, *Vice-President, Prairie Region,* Winnipeg
L. R. Smith, *Vice-President, Eastern Region,* Toronto

James Holmes, *Treasurer,* Montreal
F. A. Rutherford, *Comptroller,* Montreal
T. F. Turner, *Secretary,* Montreal

Stock Transfer Agents

Bank of Montreal Trust Company, 2 Wall Street, New York

The Royal Trust Company, 105 St. James Street West, Montreal

The Royal Trust Company, 119 Adelaide Street West, Toronto

The Royal Trust Company, 626 West Pender Street, Vancouver

Deputy Secretary, 8 Waterloo Place, London, SW1, England

Stock Listings

Debenture Stock (Sterling) listed on:
London Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Stock listed on:
Montreal, Toronto, Vancouver and London Stock Exchanges

Ordinary Stock listed on:
Montreal, Toronto, Vancouver, New York and London Stock Exchanges

For more information, shareholders should write to:
T. F. Turner, Secretary, Canadian Pacific Railway Company, Montreal 3, Canada.

Highlights

(Dollars in millions, except amounts per share)

Canadian Pacific Railway Company	1966	1965
Net Railway Earnings	$ 50.2	$ 40.2
Income, after Fixed Charges, from Railway & Miscellaneous Sources*	$ 48.3	$ 41.5
Per Ordinary Share, after Preference Dividends	$ 3.13	$ 2.65
Dividends Declared		
Preference Stock	$ 3.4	$ 3.4
Ordinary Stock	$ 21.5	$ 17.9
Per Ordinary Share	$ 1.50	$ 1.25
Income from Canadian Pacific Investments Limited	$ 20.1	$ 20.1
Dividends Declared therefrom	$ 20.1	$ 20.1
Per Ordinary Share	$ 1.40	$ 1.40
Total Dividends Per Ordinary Share	$ 2.90	$ 2.65
Taxes—Income & Other	$ 59.3	$ 47.9
Additions to Properties	$ 113.2	$ 115.7
Tons of Revenue Freight Carried—Millions	71.9	67.4

* Excluding Income from Canadian Pacific Investments Limited

Canadian Pacific Air Lines, Limited		
Operating Revenues	$ 82.6	$ 72.0
Net Operating Income	$ 8.0	$ 6.4
Available Ton Miles—Millions	319.6	279.1
Operating Cost per Available Ton Mile	23.4¢	23.5¢
Revenue Passenger Miles—Millions	1,280.0	1,144.9

Canadian Pacific Investments Limited		
Operating Income	$ 10.6	$ 10.6
Investment Income	$ 21.4	$ 20.7
Consolidated Income	$ 42.0	$ 41.9
Investments—at year end	$ 358.9	$ 334.2
Properties—at year end	$ 160.0	$ 127.8

All Services		
Employees	64,751	66,837
Total Payroll	$ 352.9	$ 343.6

Progress and Prospects

The Directors are pleased to present their Annual Report for 1966 in a new format, comprising separate sections for Canadian Pacific Railway Company, Canadian Pacific Air Lines, Limited, and Canadian Pacific Investments Limited. The latter two enterprises are now of such significance in the corporate picture as to warrant expanded reporting of their affairs. A further change is the presentation of the accounts of Canadian Pacific Investments Limited and subsidiary companies on a consolidated basis.

The year 1966 was one of opportunity for Canadian Pacific. In the transportation field, highlights were the record volume of traffic carried by the railway at new peaks of efficiency, the substantial growth in traffic and earnings achieved by Canadian Pacific Airlines, and expansion by Canadian Pacific (Bermuda) Limited in the bulk shipping trade with the launching of two automated tankers and the ordering of two special purpose bulk carriers. Outstanding developments in the resource, hotel and investment activities of Canadian Pacific Investments were the acquisition of exploration permits by Canadian Pacific Oil and Gas Limited in Canada's Northwest Territories, completion of Le Château Champlain in Montreal, and entry into the money markets by Canadian Pacific Securities Limited.

Income from railway and miscellaneous sources other than Canadian Pacific Investments Limited amounted, after fixed charges, to $48.3 million. Dividends totalling $3.4 million, at the rate of 4%, were declared on the Preference Stock and $21.5 million, at $1.50 per share, on the Ordinary Stock. Income received from Canadian Pacific Investments Limited amounted to $20.1 million, which was distributed by declaration of dividends of $1.40 per share on the Ordinary Stock. Total dividends on the Ordinary Stock in 1966 were therefore $2.90 per share.

Coinciding with Canada's centennial year is the opening of a new era in Canadian transportation. The intent of the recently enacted National Transportation Act is to stimulate freer competition among the various modes of transport, thereby securing for the Canadian people better service at lower cost. Canadian Pacific is in full agreement with this objective and gladly accepts the challenges of competition. Since 1961, when the MacPherson Royal Commission on Transportation made the recommendations on which the legislation is based, Canadian Pacific has been preparing for change. In many ways the plant, the equipment and the organization have been adapted to meet more intensive competition and keep pace with the demand for transportation services arising from actual and anticipated growth in the Canadian economy. In the past five years capital spending on the railroad has exceeded $336 million. Of this, $35.5 million was spent on diesel locomotives, including acquisition of 107 more powerful units, $127 million on nearly 7,500 new freight cars of different and specialized types, and $163 million on centralized traffic control, automated yards, improvement of track, provision of better road and equipment repair facilities and other modernization programs. All these help to speed up service, make it more frequent and better adapted to shippers' requirements.

Another important phase of planning for the new era is the recent formalization of a "planned marketing" approach to transport. This involves analysis of the transportation market, design of a service to suit the market, selling the customer the service, and performing it at a profit. Teamwork of all departments and optimum use of the skills of employees, as well as of the capacities of the plant, are essential features of "planned marketing".

The outlook for continued growth of railway traffic is very promising. On the basis of the growth projections of the Economic Council of Canada, it is estimated that the total transportation market will increase by nearly one-third between 1966 and 1971. Foodstuffs, fertilizers, liquefied petroleum gases, ores and concentrates, and chemicals and acids are only some of the commodities that are expected to move in substantially increased quantities. These are particularly suited to transport by rail. Given the expanded and improved plant that has been built up in recent years, given the favorable prospects for traffic and for a fair and open competitive environment, it is expected that effective managerial control, the application of advanced technology, and the avoidance of unjustifiable increases in labour costs will produce favorable financial results in the years to come.

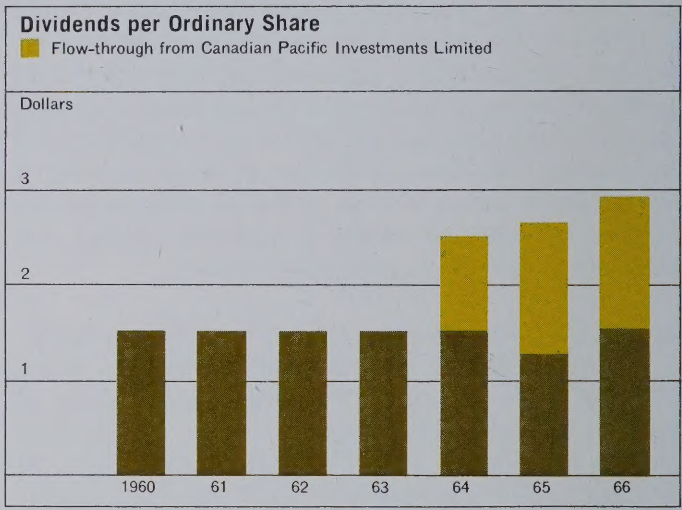
The net income of Canadian Pacific Air Lines, Limited in 1966 was $7.4 million. After a year in which new records were established in operating revenues, operating income, and passenger miles flown, this Company is looking forward to further substantial growth in 1967. Beyond that, there is every indication that the upward trend evident in the past ten years will continue during the next few years. To meet growing demand, the fleet is being expanded and

a new $24 million overhaul and maintenance base at Vancouver is to be constructed. For international services four DC8-63 jet aircraft — "Spacemasters" — are on order, and for domestic services six Boeing 737-200 jet aircraft have been ordered. In addition, deposits have been made to protect three delivery positions for the supersonic airliner being developed in the United States.

The consolidated income of Canadian Pacific Investments Limited was $42.0 million for the year. Canadian Pacific non-transportation interests have been coordinated under Canadian Pacific Investments Limited for less than five years. During this period excellent progress has been made in developing the natural resource assets and in diversifying and balancing the Company's interests through selected investments. Cominco Ltd., the largest single investment held by the Investment Company, has been diversifying its operations. The primary iron and steel business was entered in 1964, a $65 million potash project is under way in Saskatchewan and interests have been acquired in lead, zinc and sulphuric acid production facilities in Japan and in India. Canadian Pacific Oil and Gas Limited, which has carried out an active drilling program in Western Canada in recent years and has enjoyed a high ratio of success, was producing by year end 5,200 barrels of oil per day and 76 million cubic feet of gas. In addition to the activities of Canadian Pacific Oil and Gas, participation in the petroleum industry is provided through stock ownership in Trans-Canada Pipe Lines Limited, Central-Del Rio Oils Limited, and Husky Oil Canada Ltd.

Marathon Realty Company Limited, the subsidiary formed in 1963 for the purpose of managing and developing Canadian Pacific real estate interests, has had marked success in its administration of agricultural lands and in construction and leasing of commercial buildings in a number of communities. Its major project currently under development is the Place du Canada complex in Montreal. It is expected that Marathon will take an active part in "Project 200" — a multi-million dollar commercial and residential development project for downtown Vancouver. With important commercial properties in communities all across the country, the scope for Marathon is very great.

Pacific Logging Company Limited is another young and developing enterprise. It presently holds approximately 150,000 acres of timber lands on Vancouver Island and operates an integrated lumber manufacturing complex in interior British Columbia. This Company has planted on the Vancouver Island lands over 5 million seedlings in the last four years.



Since its incorporation in 1963, Canadian Pacific Hotels Limited has pursued a policy of modernizing its older hotels and expanding operations through the addition of new hotels and related services, such as Reserve-a-Room and contract hotel and restaurant management. By the end of 1966 the 38-storey Le Château Champlain in Montreal commenced operation and the Chateau Lacombe in Edmonton, a luxury 330-room hotel which is managed by Canadian Pacific Hotels, was also opened.

In this many-sided world of Canadian Pacific there are almost endless opportunities. The Directors gratefully acknowledge the contribution of officers and employees to the achievements of the past and express their confidence that the challenges of the future will be successfully met. The Directors also take this opportunity to express their appreciation to customers for their patronage and to assure them that the goal of Canadian Pacific is to continue serving them in so many ways.

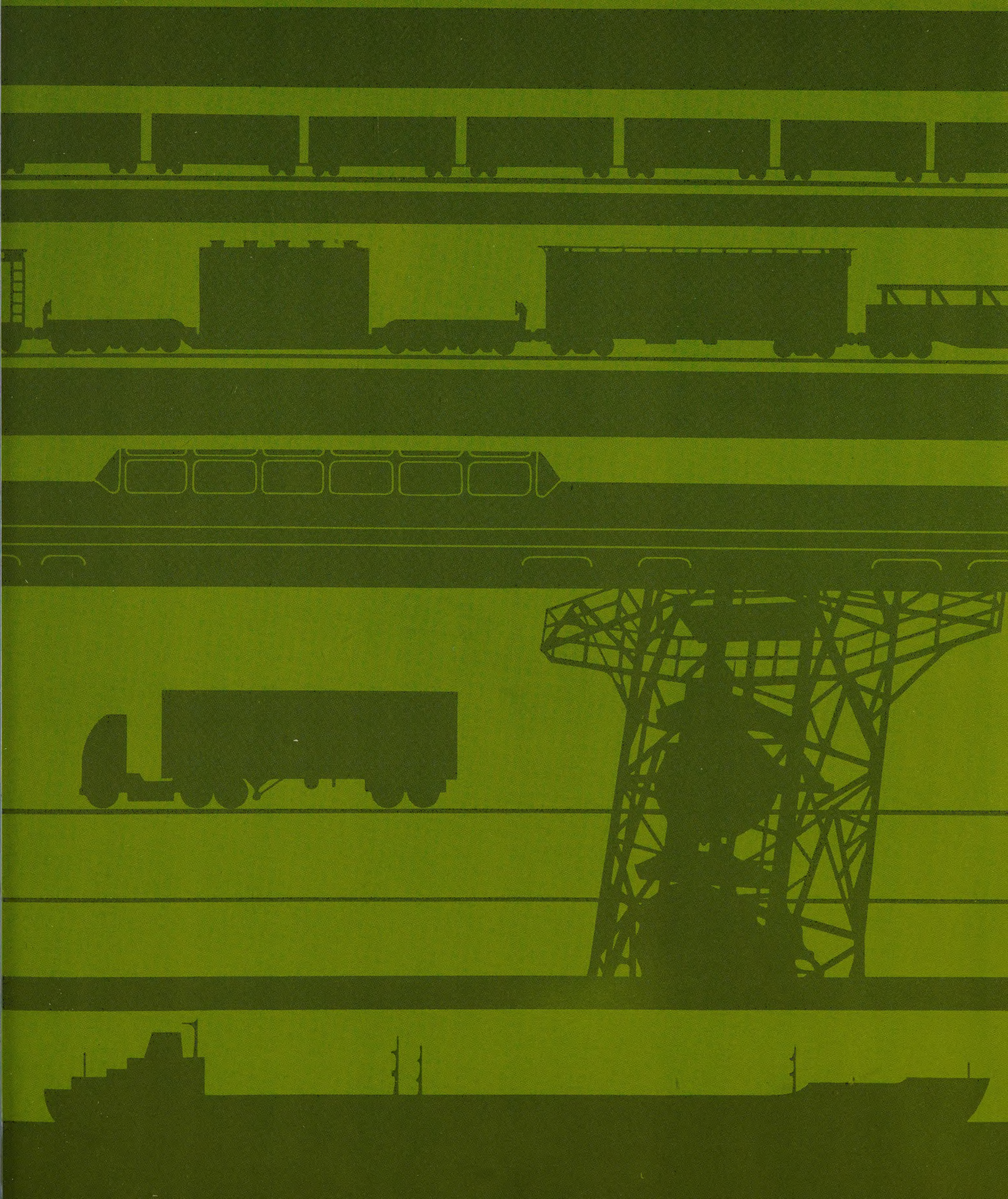
For the Directors,

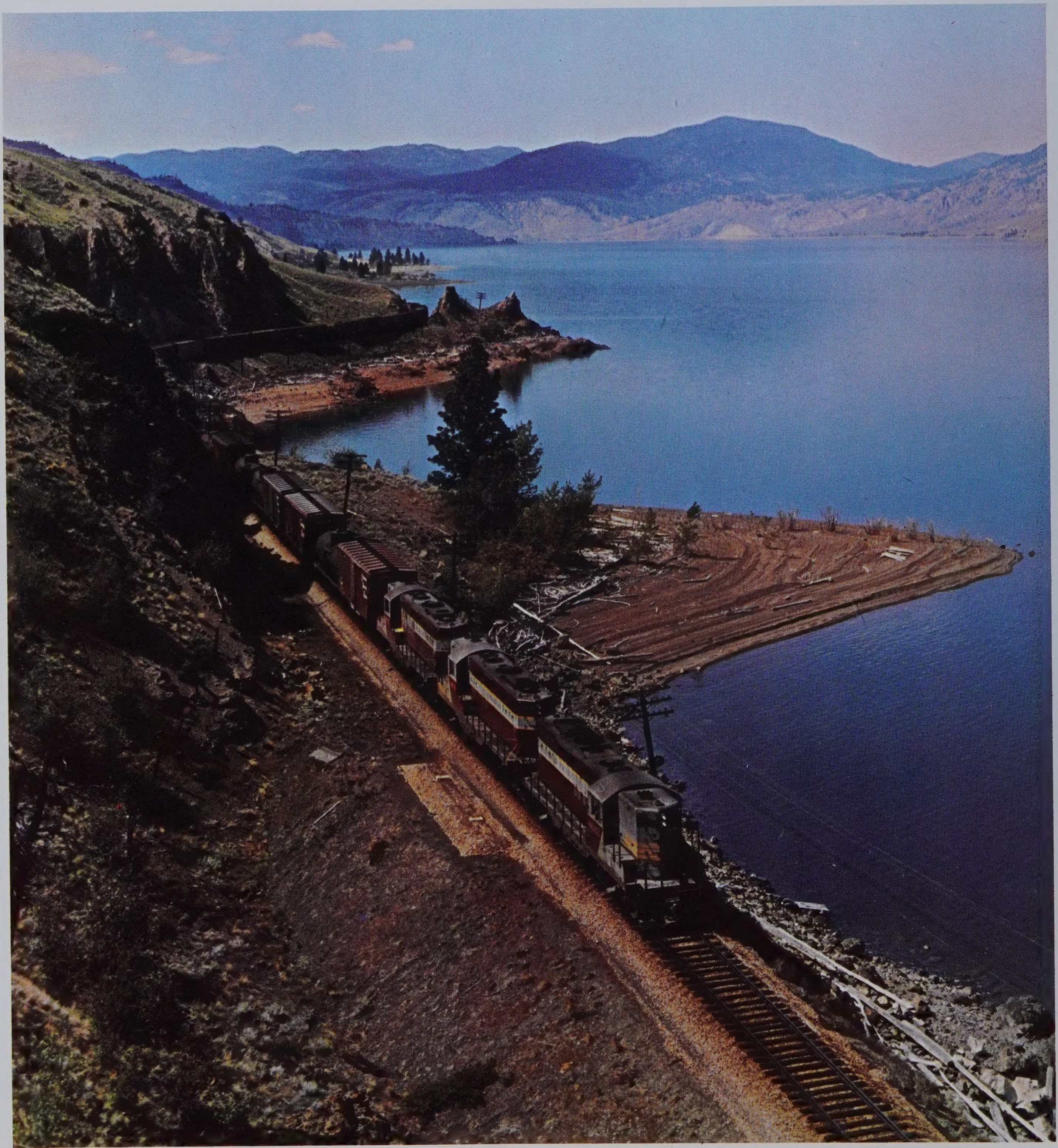
President

Chairman and Chief Executive Officer

Montreal, March 13, 1967

Canadian Pacific Railway Company





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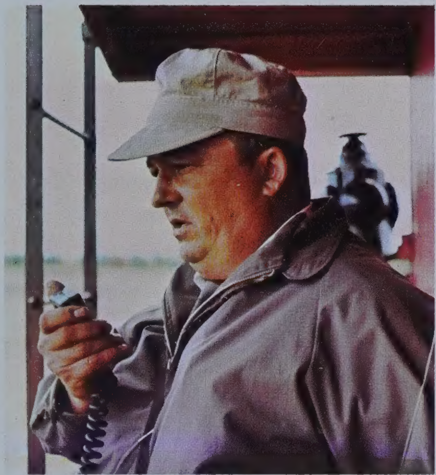

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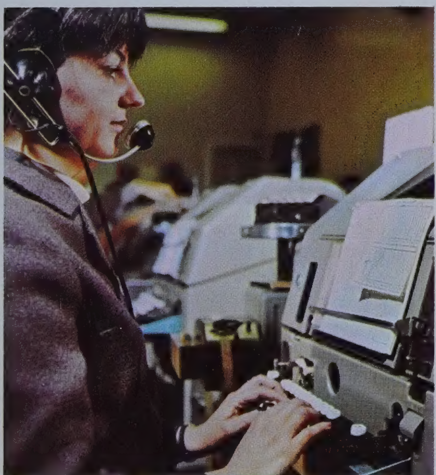

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1 Freight train, Kamloops Lake, B.C.
2 Freight trainman
3 Teletype operator
4 Passenger train conductor
5 Ocean steamship seaman
6 Highway transport driver

1 Tanker Lord Mount Stephen, 71,500 D.W.T.
2 Computer console
3 Highway transport
4 The Canadian
5 Rail tri-level auto carrier
6 Canadian Pacific-Cominco Pavilion, Expo 67

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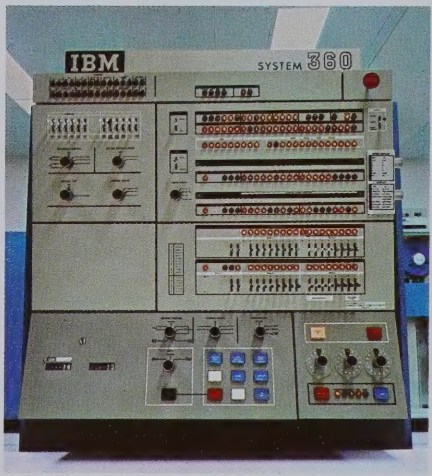

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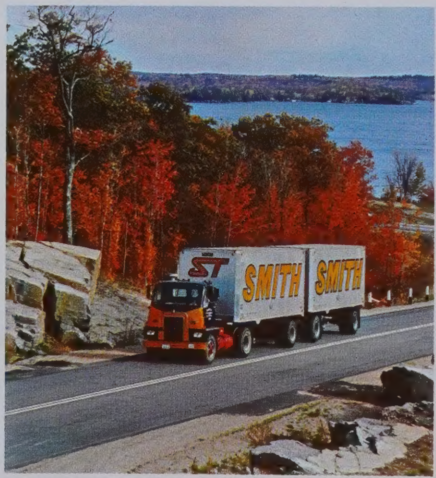

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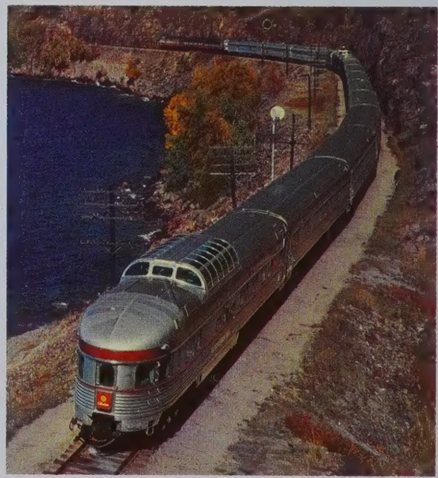

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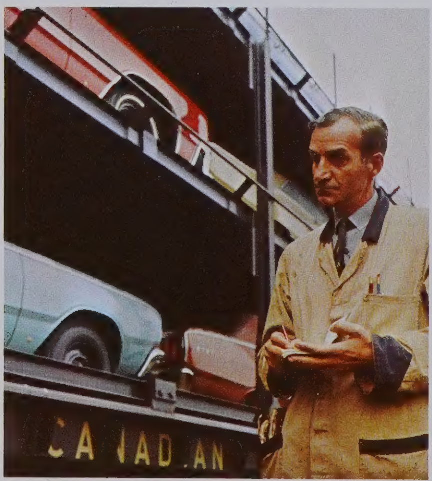

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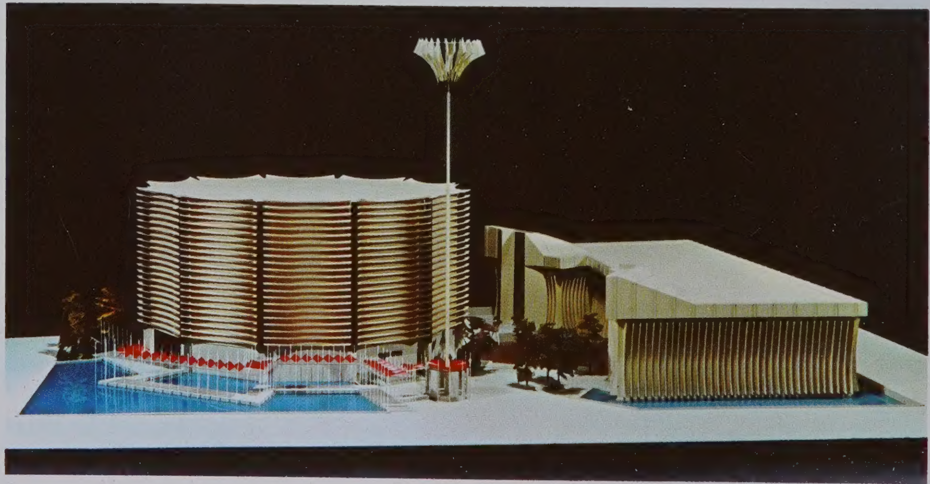

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Railway Operations

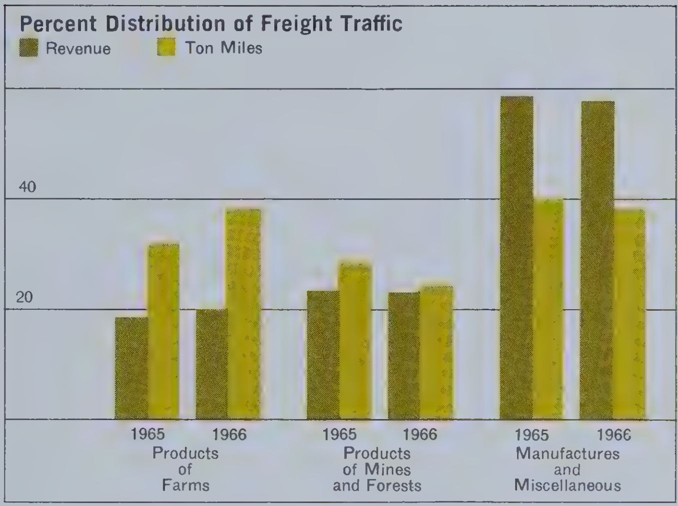
The year 1966 was outstanding for your railway. Revenues were at an all-time high, a record volume of traffic was moved, and new peaks of operating efficiency were attained. Unfortunately, the year was also notable for the first major strike against Canadian railways in nearly a decade. After one week, the strike was terminated by an Act of Parliament which recalled the employees to work and directed the railways to pay wage increases totalling 18% over a two-year period. Higher wage rates added $14 million to the 1966 railway expenses of your Company.

Despite the strike, and the heavy demands of other traffic, your Company loaded and delivered the greatest amount of grain in its history. Between the beginning of the crop year on August 1 and the end of December, 108,000 cars were loaded on the Prairies, carrying in excess of 200 million bushels of grain. This was 25% more than the previous record movement of the autumn of 1965. By the close of navigation on the Great Lakes, deliveries of grain to the Lakehead were in excess of the amounts set as a target by the Wheat Board. Even with the disruption caused by the waterfront dispute at West Coast ports, shipments of grain to Vancouver in the period amounted to more than 25,500 cars compared with 21,600 cars in the previous year, an increase of 18%. In addition, deliveries to western grain mills and other domestic customers were ahead of 1965.

Net railway earnings for the year, at $50.2 million, were $10 million, or 25%, higher than in 1965. There was also an improvement in the ratio of net earnings to railway revenues, which was 9.1% compared with 7.8% in the previous year, and in the rate of return on net investment, which increased to 3.9% from 3.2% in 1965.

Freight

At the same time as the exceptionally heavy volume of grain was being carried, unprecedented movements of other export commodities vital to the Canadian economy were also being handled. Such were potash, newsprint and other paper, liquefied petroleum gases, and woodpulp, while such domestic commodities as cement and pulpwood also increased significantly. There were some decreases: principally in lumber, which has suffered from the decline in residential construction, in coal and in iron and steel products. In total, a record of 38 billion revenue ton miles was achieved, 12% more than in 1965.



Freight revenue amounted to $509.9 million. This included Government payments of $19.7 million related to the recommendations of the MacPherson Royal Commission on Transportation and $7.5 million in respect of freight rate reductions. The total of such payments included in revenue in 1965 was $26.5 million. Also included in 1966 freight revenue were Government payments of $1 million for carrying bulk grain for export from Georgian Bay ports at rates below those authorized by the Board of Transport Commissioners, and of $11.7 million in respect of 1966 costs arising out of wage settlements reached with employees in 1964. Payments received in 1966 in respect of the 1964 and 1965 costs of such settlements were taken up in the Retained Income account.

The "freeze" on the general level of freight rates for class and commodity rated traffic imposed by Government legislation in 1959 remained in effect during 1966.

Truck and water competitive rail rates between points in Canada, as well as some agreed charges and Plan II Piggyback rates, were increased. During 1966, 63 new agreed charge contracts were negotiated and at year end 1,129 such contracts were in effect.

Canadian Pacific piggyback operations were adversely affected by the lengthy work stoppage in the trucking industry in Ontario. A total of 142,344 semi-trailers was handled, a decrease of 18% compared with the previous year. However, further progress was realized in the handling of piggyback traffic between Canada and the United States.

Your Company acquired 65 new semi-trailers in 1966 which will be used to improve the railway's competitive position in the handling of railway-billed traffic by piggyback.

The encouragement of industrial development along your Company's lines continued to make a significant contribution to the growth of freight traffic. In 1966 a total of 228 new manufacturing, warehousing and distributing firms established on or near Canadian Pacific lines, and a further 458 industries expanded or relocated their facilities adjacent to your railway.

As in 1965, the new equipment program was on a large scale and designed to anticipate the needs of shippers for specialized service. Purchases in 1966 included covered hoppers, for the handling of bulk commodities such as potash, cement and sodium products; gondolas, some especially for the steel industry; heated box cars for packaged goods that require protection from frost; multi-level flat cars for automobile transport and specialized box cars to ship auto parts.

Passenger

Passenger revenue, including sleeping, parlour, dining and buffet car revenues, continued to decline, reflecting your Company's withdrawal from the Montreal-Toronto, Toronto-Ottawa service and the cancellation of "The Dominion", your secondary transcontinental train. An extra transcontinental, "Expo Limited", will be operated from May through October in 1967.

Commutation traffic was up for the year. Tariffs were filed with the Board of Transport Commissioners, effective September 17, to give effect to higher commutation fares. These were suspended by the Board, which ordered public hearings. The hearings were completed in November and the Board's decision is awaited.

Other Traffic

Mail revenue was lower because of the reduction in passenger trains operated. An application was made to the Postmaster General for an increase of 10% in mail rates effective November 1. An increase of 7% was granted and negotiations are in progress in connection with the balance of the 10% requested.

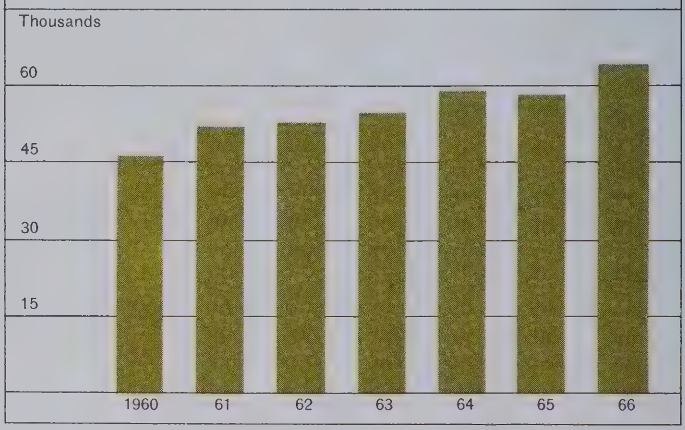
Express
Additional express business carried during the strike in the trucking industry in Ontario was partially offset by the loss of traffic as a result of the railway strike. Certain express rates were increased effective October 17, while higher wage rates were paid from January 1, 1966.

Railway Expenses

Road and Equipment Maintenance expenses were 2% higher than in the previous year, largely because of increased wage costs. New repair procedures to improve productivity were instituted in Toronto and at Angus Shops in Montreal. Depreciation charges rose in line with additions and improvements to properties, particularly equipment.

Transportation expenses rose by 4%, while gross ton miles were up 7%. This was achieved, despite higher wage costs, as a result of increased efficiency of freight train operations and reductions in expenses due to curtailment of passenger train service. Operating performance, as measured by average freight train weight, the number of cars per freight train, and gross ton miles per freight train hour, reached a record level.

Gross Ton Miles per Freight Train Hour



Labour Relations

Early in 1966 conciliation boards were appointed to hear disputes between Canadian Pacific and unions representing non-operating and train service employees. The parties declined to accept the recommendations submitted by these boards, and on August 26 the employees went on strike and all rail operations of your Company were suspended.

On September 1 a special session of Parliament called to deal with the emergency passed the "Maintenance of Railway Operation Act, 1966", which recalled the employees to work and awarded three wage increases of 4% each effective January 1, 1966, July 1, 1966 and January 1, 1967, and a fourth increase of 6% on July 1, 1967. The Act extended the existing collective agreements to the end of 1967, but provided for resumption of negotiations under a mediator to be followed by arbitration if mediation failed to effect final settlement of all matters in dispute.

On November 30, 1966 a Memorandum of Settlement was signed with the shop craft unions on the basis of a three-year agreement ending December 31, 1968. This settlement confirmed the statutory increases of 4% January 1, and 4% July 1, for the year 1966 and provided for wage increases of 7% January 1, 1967, 3% July 1, 1967 and 6% January 1, 1968. In addition, a further 5¢ per hour for skilled tradesmen effective July 1, 1967 and a further 5¢ for this same group effective January 1, 1968 formed part of the proposed settlement, together with provisions for bereavement leave, improved vacations, increased life insurance, and extended weekly indemnity payments on account of sickness and accident under the Employee Health and Welfare Plan. The settlement also provided for negotiation to minimize the adverse effects on employees of any material change in working conditions resulting from technological, organizational or operational change, but not including changes brought about by traffic declines. It was also agreed that in the event of failure to reach mutual agreement, final determination by arbitration would be adopted.

However, your Company was advised on January 10, 1967 that the shop craft employees had rejected the terms of settlement provided in the above-mentioned Memorandum of Settlement. Unless, therefore, there is a change in the position of these employees, the dispute will be referred to a board of arbitration in accordance with the "Maintenance of Railway Operation Act, 1966."

On December 17, a Memorandum of Settlement was reached with the residual non-operating unions which provided for the same improvements in wages and working conditions, except that the differentials provided for in the shop crafts settlement on account of craft skills do not apply in respect of this group. The settlement provides for a special study to be made of classifications and wage rates in each group in order to eliminate any inequities that may exist, and can include both upward and downward adjustments in rates. This settlement has been ratified by the employees, with the new agreement extending to December 31, 1968.

Agreement was also reached with the Brotherhood of Railroad Trainmen covering the three-year period ending December 31, 1968 which provides for wage increases and changes in working conditions on the same basis as agreed to with the residual non-operating unions.

An important feature of this agreement provides for the pooling of cabooses in freight service. This will greatly increase the utilization of this equipment and will also expedite the movement of trains through terminals where formerly delays were incurred in exchanging cabooses at points where train crews are changed.

Provision is also made in the agreement for increased introduction of two-man yard crews. Negotiations are continuing in respect of the manner in which additional two-man crews will be established and the agreement provides for the conditions of implementation to be determined by final and binding arbitration if the parties fail to reach agreement by April 30, 1967.

Demands by the locomotive engineers for changes in their collective agreements which expire March 15, 1967 were received on January 15. Negotiations commenced on February 1, 1967.

Improvements in Equipment and Facilities

During 1966 a total of $98.9 million was expended on additions and improvements to railway equipment and property. Of this amount $38.2 million was for the purchase of 2,104 new freight cars, $17.3 million was spent on diesel locomotives, and $40.2 million was expended on track, roadway and other facilities.

Equipment purchases in 1966 reflected the continually growing demand for covered hopper cars. The 1,020 purchased, of which 20 are pressure flow cars, all with capacities of 100 tons, will be used mainly by Saskatchewan's potash industry and for the shipment of other dry bulk commodities. Other units acquired were: 300 50-foot heated box cars; 302 52-foot gondola cars, of which 100 have removable covers; 166 60-foot auto parts box cars; 135 piggyback flat cars; 100 53-foot flat cars; and 57 multi-level flat cars.

Railway motive power was augmented by the purchase of 33 heavy-duty locomotives capable of hauling heavy tonnage over mountain grades between Calgary and Vancouver. An additional 14 units were upgraded to higher horsepower and the program of rebuilding traction motors was continued on a further 430 motors.

Expenditures on roadway covered the laying of 491 miles of new and relay rail, the building of 71 miles of new track and extensions, the installation of 1.3 million ties, and the application of rock ballast to 119 miles of track. Centralized traffic control was installed on 293 miles of track in 1966. Automatic block signals, including 1,307 miles of centralized traffic control, were in use on 3,873 miles of road by the end of the year.

Other improvements to facilities in 1966 included construction of new freight car repair facilities in Toronto and a new freight terminal at Kingston. Work commenced on an addition to the Merchandise Services terminal at Vancouver which will increase capacity by 30%.

Other Income

Income of your Company from steamship, hotel and telecommunication operations and from investments other than Canadian Pacific Investments Limited amounted to $18.0 million, after provision for income taxes of $3.4 million. In 1965 such income amounted to $17.6 million, after income taxes of $3.7 million.

Net earnings from operations given below are in all cases before provision for income taxes.

Steamships

Steamship operations resulted in a loss of $1.4 million, compared with net earnings of $111,000 in 1965.

A series of strikes that beset the shipping industry in the United Kingdom and Canada necessitated abandonment of five round-trip voyages by Empress ships during the peak summer season. Expenses were adversely affected by wage increases provided for in settlements of the labour disputes.

The "Empress of Canada" participated in a winter cruise program from New York to Caribbean ports while the "Empress of England" was employed in cruises from Liverpool to the islands off the west coast of Africa and to the West Indies.

The results of the "Beaver" ships owned by your Company were encouraging despite the difficult conditions encountered in 1966. The earnings of "Beaverfir", "Beaveroak" and "Beaverpine", owned by Canadian Pacific Steamships, Limited, and the results of charter operations conducted by that subsidiary are not included in the above earnings.

Canadian Pacific (Bermuda) Limited took delivery in November of the 71,500-ton motor tanker "Lord Mount Stephen". Immediately on delivery the ship began fulfilment of a ten-year time charter to Shell International Marine Limited. A second tanker, the "Lord Strathcona", was launched during the year. Delivery is expected early in 1967 when the ship will be chartered to The British Petroleum Company Limited. The bulk carrier "R. B. Angus", which was acquired in 1965, continued to operate regularly on her trans-Pacific route. During 1966 a contract was signed with MacMillan Bloedel Limited for an eight-year charter of two specialized forest products carriers, of advanced design, which are under construction in a Japanese yard.

Coastal steamship earnings decreased from 1965 as a result of higher operating costs which offset improved revenues.

Hotels

Operation of hotels owned by the Railway Company resulted in a profit of $257,000, compared with a loss of $76,000 in 1965. The results for 1966 exclude earnings of hotels sold to Canadian Pacific Hotels Limited — the Empress Hotel, sold July 1, 1965, and Le Château Frontenac and Hotel Saskatchewan on January 1, 1966.

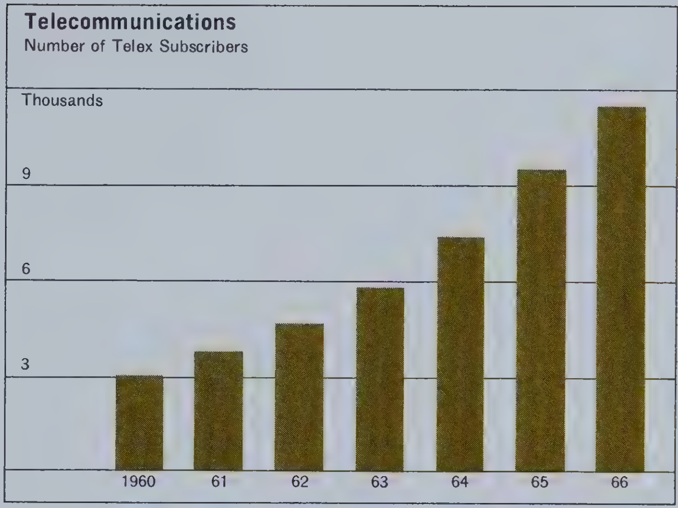
Tour business at the Chateau Lake Louise and the Banff Springs Hotel was adversely affected by the airline strike in the United States and the railway strike in Canada. As a result, earnings at the Chateau Lake Louise decreased but the longer operating season at the Banff Springs Hotel enabled that hotel to show an improvement over the previous year. Operating results at the Hotel Palliser and the Algonquin Hotel were also better in 1966.

The proposed sale of the Royal Alexandra Hotel at Winnipeg was not completed. The combined effect of prior cancellation of reservations and continued competition from newer hotels in the area accounted for a further deterioration in the results of the hotel. The labour agreement with employees was renewed for three years.

The program of upgrading facilities at your hotels was continued during 1966, and included the modernization of further guest accommodation at the Banff Springs Hotel and Chateau Lake Louise.

Telecommunications

Net earnings from telecommunication services amounted to $3.5 million, compared with $2.8 million in 1965. Gross revenues showed a substantial improvement due to the continued high rate of growth of the "Telex" service and a moderate improvement in demand for private wire services. Effective October 15, the land line proportion of revenue from overseas cable messages accruing to your Company was increased by 18% in agreement with connecting overseas carriers. Higher wage rates accounted for a substantial increase in the cost of conducting your commercial telecommunication services.



The necessary modifications and changes to the micro-wave systems between Toronto and Windsor and Montreal and Moncton, owned jointly with the Canadian National, to enable colour television network transmission by the Canadian Broadcasting Corporation were effected by October 1, the date required by the Corporation.

Unforeseen delays have resulted in deferment to April, 1967 of inauguration of the new "broadband switched service" to be operated jointly with Canadian National. This service will enable customers, through direct dialing, to obtain circuits for the transmission of speech or pictures, or the high-speed transfer of data between computers.

Dividend and Interest Income

Dividend income, excluding dividends received from Canadian Pacific Investments Limited, amounted to $4.0 million, an increase of $614,000 over 1965. Dividends received from Canadian Pacific Transport Company, Limited and Canadian Pacific (Bermuda) Limited together with increased dividends from the Soo Line Railroad Company more than offset reductions in dividends from The Toronto, Hamilton and Buffalo Railway Company and The Public Markets, Limited.

Interest earned on temporary cash investments and funds in banks increased $1.3 million. Interest received on your holdings of mortgage bonds of the Northern Alberta Railways Company increased to $731,000 from $183,000 in the previous year.

Soo Line Railroad Company

Income received from the Soo Line Railroad Company amounted to $3.3 million, an increase of $285,000 over the previous year, attributable to increased dividends. Of the income received, $2.4 million related to dividends on your Company's holdings of Soo Line common stock and $902,000 to interest on bonds.

Net income of the Soo Line, in which your Company has the controlling interest, amounted to $6.5 million, $979,000 higher than in 1965. A heavier volume of business, notably from grain, but also from chemical, pulp and paper, and petroleum and coal products, produced substantially increased freight revenues. Higher maintenance and transportation expenses, including additional wage and fringe benefit costs, and increased tax accruals offset part of the gain in freight revenues.

Highway Transport

Despite the disrupting effect of the 14-week Teamsters' strike in Ontario in the early part of the year, 1966 was a year of solid achievement in implementation of plans for the future of your subsidiary, Smith Transport Limited. Major changes were made in the organization of the Company and the program of modernizing its highway fleet was continued. Substantial orders were placed for new and larger tractors and trailers to permit retirement of older vehicles. Concurrently, a new servicing centre for highway vehicles was opened in Toronto, and improvements and additions to freight handling facilities in Toronto, Ottawa and Kingston were in various stages of completion.

Your subsidiary, Canadian Pacific Transport Company, Limited, initiated two new services in 1966: Canadian Pacific Transport Air Forwarding Service was inaugurated to provide merchandise shippers in Montreal and Toronto with rapid service by air to Winnipeg, Calgary, Edmonton and Vancouver, and a new hauling division was created with responsibility for the development of bulk hauling and heavy goods handling in Western Canada.

Financial and Corporate

Fixed Charges

Fixed charges, at $20.0 million, were up $3.6 million from 1965. Interest charges were higher due to the issue on January 6, 1966 of Series "P" equipment trust certificates and the loan from the Export-Import Bank of Washington, which is described in the "Finance" section below. Leased line rentals were higher because the rent for some lines has been increased by the amount the lessor charges in its accounts for depreciation. The previous rental was not sufficient to meet any charge for depreciation.

Dividends Declared

Dividends declared on Preference Stock totalled 4%, the same as in 1965. A dividend of 2% was paid August 1, 1966 and a further one of 2% on February 1, 1967.

Dividends on Ordinary Stock amounted to $2.90 per share, of which $1.45 was paid on August 1, 1966 and $1.45 on February 1, 1967. Included in each of these dividends on the Ordinary Stock was an amount of $0.70 per share which flowed through from Canadian Pacific Investments Limited.

Finance

Serial equipment obligations amounting to U.S. $3,336,000 and Canadian $2,000,000 were discharged in 1966.

Convertible Seventeen Year 4% Collateral Trust Bonds in the amount of $70,000, Convertible Fifteen Year 3½% Collateral Trust Bonds in the amount of $247,000, Eighteen Year 3¾% Collateral Trust Bonds in the amount of $90,000, and Twenty-Five Year 5% Collateral Trust Bonds in the amount of $50,000 were purchased and cancelled.

On October 1, the issue of Convertible Fifteen Year 3½% Collateral Trust Bonds matured, and funds for the redemption of the balance of $17,628,000 outstanding were made available to the Trustee.

The foregoing transactions, the issuance of the Equipment Trust, Series "P", Certificates referred to in the 1965 Annual Report, and exchange adjustments resulted in a net increase of $4,304,040 in Funded Debt, including the amount maturing within one year, and a decrease of

$21,702,000 in the amount of Consolidated Debenture Stock pledged as collateral.

During the year a loan agreement was signed with the Export-Import Bank of Washington, under which your Company borrowed an amount of U.S. $31,293,003, which amount was paid to Douglas Aircraft Company, Inc., being the discounted balance of the purchase price of four DC8-63 aircraft. The loan bears interest at the rate of 6¼% per annum, payable semi-annually on January 20 and July 20. It is repayable in four instalments up to March 1, 1968.

Land Transactions

There were no land transactions of any significance in 1966. As a result, the net proceeds from sales of properties included in Retained Income amounted to a charge of $36,184.

Balance Sheet

A number of changes have been made in the grouping of items and in the captions on the Balance Sheet. Under Current Assets, the account Special Deposits, formerly shown separately, and cash in the hands of agents, formerly included in Agents' and Conductors' Balances, are now included in Cash and Temporary Investments; the remainder of the account Agents' and Conductors' Balances is in Accounts Receivable.

Under Other Assets two new captions are used — Aircraft Deposits, which include $36.7 million advance payments on four jet aircraft ordered for your airlines, and Special Refundable Corporation Tax, referring to the Federal tax levied for a period of 18 months from May 1, 1966 to October 31, 1967. This tax is to be refunded, with 5% interest, within a period to be determined by order-in-council but to be between 18 and 36 months after payment dates; the amount paid by your Company to the end of 1966 was $3.6 million.

Under Current Liabilities a new account appears — Debt Maturing Within One Year, which includes amounts of both funded debt and loans payable. Deposits by Affiliated Companies (Net) are now shown separately; these were formerly included in Other Accounts Receivable and in Accounts Payable and Wages Accrued.

Certain deferred assets and liabilities which were deemed to be of a current nature have been transferred, respectively, to Accounts Receivable and Other Current Liabilities.

During the year additional shares of the capital stock of Canadian Pacific (Bermuda) Limited, amounting to $10.5 million, and of Canadian Pacific Investments Limited, amounting to $7.3 million, were purchased.

Net additions to properties during 1966 were $39.0 million. Particulars of expenditures and retirements are contained in a supporting schedule on page 24.

Capital Appropriations

Capital appropriations amounting to $58.8 million, in addition to those forecast in the 1965 Annual Report, were authorized. Included in these appropriations were $4.8 million for station and roadway buildings, $1.5 million for signals on existing trackage, $3.2 million for new trackage, $1.5 million for locomotives, $1.6 million for telecommunications, and $42.5 million for aircraft. The capital appropriations for 1967 approved to March 13, 1967 are set out in a schedule on page 31.

Pensions and Other Benefits

Pension expenses of your Company for the year totalled $33.5 million, an increase of $4.3 million over 1965. These comprised the portion of pension allowances currently paid by the Company, levies in respect of employees covered by the Canada and Quebec pension plans and by the United States Railroad Retirement Act, and contributions of $7.5 million to the Pension Trust Fund. The amount of such contributions not subject to current withdrawal had accumulated, with interest, to $132.7 million at the end of the year, which will enable the Fund eventually to bear a larger share of the cost of future pension benefits.

There were 1,548 pensions granted during the year and 1,324 terminated by death and other causes. At the year end there were 20,458 on the pension payroll.

Payments made by your Company in respect of employee health and welfare benefit plans, the job security fund and unemployment insurance amounted to $6.6 million for the year.

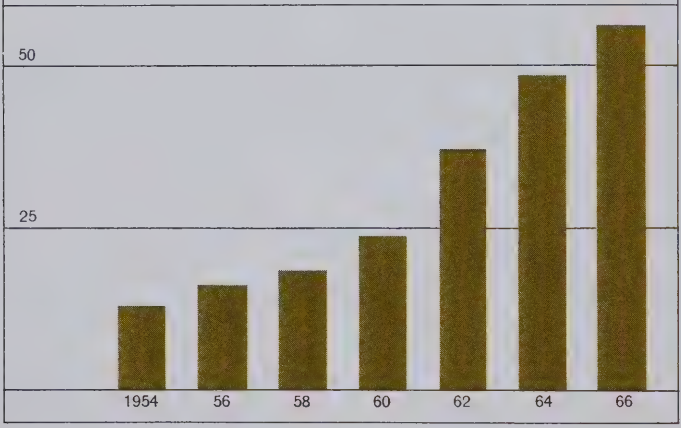
Stock Holdings

The holdings of the Capital Stock and voting rights at December 31, 1966 were as follows:

	Ordinary		Preference		
	No. of Holdings*	Voting Rights	No. of Holdings*	Voting Rights	Total Voting Rights
Canada	43,439	54.61%	5,795	62.44%	56.82%
United Kingdom and Other British	2,951	15.13	12,160	35.65	20.92
United States	17,544	21.57	69	.42	15.60
Other Countries	1,199	8.69	392	1.49	6.66
	65,133	100.00%	18,416	100.00%	100.00%

* Includes only registered holders.

Capital Stock
Percentage of Voting Rights Held in Canada



Directorate

Mr. David Kinnear was appointed a Director of the Company to fill the vacancy on the Board created by the retirement of Mr. H. E. Sellers, C.B.E. Mr. S. M. Gossage was appointed a Director of the Company to fill the vacancy created by the death of Mr. R. A. Emerson.

In February 1967, Mr. G. Blair Gordon, who joined the Board in 1939, asked that, for personal reasons, he be relieved of his responsibilities as a Director. The Board accepted his resignation with much regret. The Directors desire to record their warm appreciation of the notable contribution to the affairs of the Company that has been made by Mr. Gordon during the long period of his association with the Board. Mr. W. A. Arbuckle was appointed a Director to succeed Mr. G. Blair Gordon.

The under-mentioned Directors will retire from office at the forthcoming Annual Meeting. They are eligible for re-election.

Mr. G. Maxwell Bell
Mr. George W. Bourke
Mr. G. Arnold Hart, M.B.E.
Mr. Allard Jiskoot
Mr. W. Earle McLaughlin
Mr. Harold M. Turner

Statement of Income
Statement of Retained Income

Statement of Income	1966	1965
Income from Railway and Miscellaneous Sources:		
Railway Revenues (Page 21)	$553,830,250	$518,035,410
Railway Expenses (Page 21)	503,610,483	477,795,703
Net Railway Earnings	$ 50,219,767	$ 40,239,707
Other Income (Page 22)	18,036,660	17,580,169
	$ 68,256,427	$ 57,819,876
Fixed Charges (Page 22)	19,950,910	16,344,375
Income from Railway and Miscellaneous Sources, transferred to Retained Income	$ 48,305,517	$ 41,475,501
Income from Canadian Pacific Investments Limited:		
Net Income (being dividends received from Canadian Pacific Investments Limited – Page 54)	$ 20,065,438	$ 20,065,438
Dividends therefrom:		
Ordinary Stock—$1.40 per share	$ 20,065,438	$ 20,065,438

Statement of Retained Income	1966	1965
Balance, January 1	$705,135,575	$681,988,499
Income from Railway and Miscellaneous Sources	48,305,517	41,475,501
Balance, after income tax, of Federal allowance of $14,548,936 in respect of 1964/65 railway wage increases	7,118,066	—
Net Proceeds from Sales of Lands, Townsites and other Properties	Dr 36,184	2,539,279
Miscellaneous (Net)	Dr 128,700	449,205
	$760,394,274	$726,452,484
Deduct:		
Dividends		
Preference Stock—4%	$ 3,390,058	$ 3,401,339
Ordinary Stock—1966 - $1.50 per share; 1965 - $1.25 per share	21,498,684	17,915,570
	$ 24,888,742	$ 21,316,909
Balance, December 31	$735,505,532	$705,135,575

Assets	1966	1965
Current Assets:		
Cash and Temporary Investments	$ 65,460,835	$ 48,368,993
Dividend Receivable from Canadian Pacific Investments Limited	10,032,719	12,899,210
Accounts Receivable	80,008,542	69,360,765
Material and Supplies	39,628,162	34,394,589
	$ 195,130,258	$ 165,023,557
Other Assets:		
Aircraft Deposits	$ 37,055,467	$ 756,432
Special Refundable Corporation Tax	3,554,400	—
Other Deposits	3,142,748	3,755,094
Unamortized Discount on Funded Debt	1,542,941	1,672,694
Other Deferred Charges	1,245,338	898,038
	$ 46,540,894	$ 7,082,258
Insurance Fund	$ 13,929,019	$ 14,170,838
Investments:		
Canadian Pacific Investments Limited	$ 310,820,160	$ 303,531,160
Canadian Pacific Air Lines, Limited	22,750,000	22,750,000
Other Subsidiary Companies	107,695,508	97,217,711
Other Investments	46,498,596	45,626,619
	$ 487,764,264	$ 469,125,490
Properties:		
Railway	$2,221,285,867	$2,160,235,248
Telecommunications	109,656,807	104,850,165
Hotels	25,268,877	42,337,490
Steamships	63,257,715	62,748,985
Aircraft	44,554,759	54,030,593
Other Properties	11,941,338	12,782,125
	$2,475,965,363	$2,436,984,606
Less: Accumulated Depreciation	1,096,802,784	1,070,721,222
	$1,379,162,579	$1,366,263,384
	$2,122,527,014	$2,021,665,527

December 31

Liabilities	1966	1965
Current Liabilities:		
Accounts Payable and Wages Accrued	$ 76,549,011	$ 69,726,962
Deposits by Affiliated Companies (Net)	22,148,751	13,894,182
Income and Other Taxes Payable	23,521,017	6,507,812
Dividends Payable	23,044,521	22,273,560
Debt Maturing Within One Year	30,551,503	21,543,000
Other Current Liabilities	27,223,339	25,942,555
	$ 203,038,142	$ 159,888,071
Deferred Liabilities	$ 13,656,626	$ 4,753,354
Deferred Credits:		
Deferred Income Taxes	$ 122,000,000	$ 118,800,000
Other	401,947	336,938
	$ 122,401,947	$ 119,136,938
Insurance Reserve	$ 13,929,019	$ 14,170,838
Investment Reserves	$ 3,812,127	$ 8,776,729
Funded Debt	$ 123,432,660	$ 103,188,500
Debenture Stock	$ 292,548,888	$ 292,548,888
Shareholders' Equity:		
Preference Stock	$ 137,256,921	$ 137,256,921
Ordinary Stock	358,311,400	358,311,400
Premium on Stock	38,528,724	38,528,724
Donations and Grants	80,105,028	79,969,589
Retained Income	735,505,532	705,135,575
	$1,349,707,605	$1,319,202,209
	$2,122,527,014	$2,021,665,527

F. A. Rutherford, Comptroller

Contingent Liabilities

At December 31, 1966, the Canadian Pacific Railway Company was contingently liable in respect of the following:

The Esquimalt and Nanaimo Railway Company—owned and operated under lease by Canadian Pacific Railway Company. Guarantee of additional tax with interest and penalties (amounting to approximately $45 million) involved in Notices of Re-assessment received from the Taxation Division of the Department of National Revenue, Canada, dated November 15, 1966, in respect of the taxation years 1960 to 1964 inclusive. On the advice of counsel, the re-assessments will be vigorously contested and Notices of Objection to the re-assessments have been sent to the Minister of National Revenue.

The Calgary and Edmonton Railway Company—operated under lease by Canadian Pacific Railway Company. Guarantee and assumption of payment of principal £1,121,700 4% Consolidated Debenture Stock, terminable January 1, 2002, upon expiry of lease on January 1, 2002, or in alternative, renewal of lease.
Interest on the principal outstanding, excluding £112,973 held by Canadian Pacific Railway Company, is included as part of Rent for Leased Roads in Fixed Charges.

Minneapolis, St. Paul & Sault Ste. Marie Railway Company—predecessor of Minneapolis, St. Paul & Sault Ste. Marie Railroad Company now merged in Soo Line Railroad Company. Guarantee of interest payable in United States currency on principal of $1,069,586 5½% First Refunding Mortgage Bonds, Series "B", dated to mature July 1, 1978.

Auditors' Report to the Shareholders of Canadian Pacific Railway Company

We have examined the Balance Sheet of Canadian Pacific Railway Company as at December 31, 1966 and the Statements of Income and Retained Income and the related financial statements for the year then ended (as shown on pages 17 to 26 inclusive). Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.
In our opinion, subject to the final determination of the proposed additional liability for income taxes of a subsidiary referred to on this page, these financial statements present fairly the financial position of Canadian Pacific Railway Company as at December 31, 1966 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co., Chartered Accountants.

Montreal, March 10, 1967

Railway Revenues
Railway Expenses

Railway Revenues	1966	1965
Freight	**$509,892,011**	$461,192,418
Passenger	**16,059,291**	23,946,514
Sleeping, Dining, Parlour Car and News Service	**6,735,570**	10,530,194
Mail	**2,049,610**	3,380,654
Express	**3,184,137**	4,034,151
Miscellaneous	**15,909,631**	14,951,479
	$553,830,250	$518,035,410

Railway Expenses	1966	1965
Road Maintenance	**$ 85,167,925**	$ 81,443,125
Equipment Maintenance	**108,192,919**	107,266,166
Traffic	**15,264,433**	13,968,748
Transportation—Railway Line	**192,304,743**	185,417,703
Miscellaneous Railway Operations	**5,939,196**	8,061,549
General	**43,566,816**	41,957,367
Operating Expenses	**$450,436,032**	$438,114,658
Equipment Rents (Net)	**Cr 2,640,876**	Cr 4,405,166
Joint Facility Rents (Net)	**1,474,486**	1,598,493
Railway Tax Accruals:		
Provision for Income Taxes (Note, page 22)	**37,600,000**	29,700,000
Other Railway Taxes	**16,740,841**	12,787,718
	$503,610,483	$477,795,703

Other Income
Fixed Charges

Other Income	**1966**	1965
Net earnings from steamships	**Dr $ 1,434,399**	$ 110,590
Net earnings from hotel, telecommunication and other properties	**3,844,167**	2,768,616
Dividends and interest	**9,787,039**	6,998,634
Net income from separately operated properties and miscellaneous sources	**9,279,853**	11,437,329
	$21,476,660	$21,315,169
Provision for income taxes (Note)	**3,440,000**	3,735,000
	$18,036,660	$17,580,169

Note:
Income tax provisions are included in the accounts on the basis of depreciation accruals charged income while for tax payment purposes capital cost allowances are claimed. For the year there was a deferment of $3.2 million taxes payable in respect of Railway and Other Income which liability has been added to Deferred Income Taxes

Fixed Charges		
Interest on Debenture Stock and Funded Debt:		
Perpetual 4% Consolidated Debenture Stock	**$ 8,436,848**	$ 8,443,849
Equipment Trust Certificates	**1,692,344**	540,603
Collateral Trust Bonds	**4,623,267**	4,788,651
	$14,752,459	$13,773,103
Rent for Leased Roads:		
Ontario and Quebec Railway	**$ 696,778**	$ 698,257
Quebec Central Railway	**248,444**	249,126
Other	**1,768,967**	676,439
	$ 2,714,189	$ 1,623,822
Guaranteed Interest:		
Minneapolis, St. Paul & Sault Ste. Marie Railway Company Bonds	**$ 16,347**	$ 19,468
Interest on Unfunded Debt	**$ 2,238,082**	$ 580,397
Amortization of Discount on Funded Debt	**$ 229,833**	$ 347,585
	$19,950,910	$16,344,375

Investments — Other Subsidiary Companies

	Rate	Par Value or Principal Amount
Aroostook Valley Railroad Company		
Capital Stock		$ 257,400
Canadian Pacific (Bermuda) Limited		
† Capital Stock—2,374,900 shares	Cost	7,122,625
† Preference Stock—3,135,286 shares	Cost	9,415,843
Canadian Pacific Express Company		
† Capital Stock		4,250,000
Canadian Pacific Steamships, Limited		
† Capital Stock—244,586 shares	Cost	7,169,133
Canadian Pacific Transport Company, Limited		
† Capital Stock		6,000,000
Central Terminal Railway Company		
† Capital Stock		2,000,000
Commandant Properties Limited		
† Capital Stock—No Par Value—10,000 shares	Cost	500,000
Sault Ste. Marie Bridge Company		
Capital Stock		500,000
Advances		214,548
Smith Transport Limited		
† Preference Stock	5%	12,000,000
Smithsons Holdings Limited		
† Preference Stock	5%	510,000
† Common Stock—No Par Value—10,000 shares	Cost	14,213,163
Advances	5%	900,000
Soo Line Railroad Company		
Common Stock—No Par Value—704,953 shares	Cost	28,269,860
* Duluth, South Shore and Atlantic Railroad Company		
† First Mortgage Income Bonds	4%	4,103,200
* Minneapolis, St. Paul & Sault Ste. Marie Railroad Company		
General Mortgage Income Bonds	4%	3,339,000
* Wisconsin Central Railroad Company		
First Mortgage Bonds	4%	1,586,500
General Mortgage Income Bonds	4½%	10,427,450
Miscellaneous	Cost	296,820
Carried on Balance Sheet at Cost - $107,695,508		$113,075,542

† Denotes complete ownership.
* Obligation and liability assumed by Soo Line Railroad Company

Other Investments
Changes in Investments
Changes in Properties

Other Investments	Rate	*Par Value or Principal Amount*
Northern Alberta Railways Company		
First Mortgage Bonds	5%	$ 16,700,000
Capital Stock		8,640,000
The Toronto, Hamilton and Buffalo Railway Company		
Capital Stock		1,469,500
The Toronto Terminals Railway Company		
First Mortgage Bonds	5%	10,405,000
Capital Stock		250,000
Advances		208,700
Transoceanic Navigation Corporation		
First Preferred Mortgage	5%	4,280,000
Deferred Payments and Mortgages on Properties		4,208,965
Miscellaneous	Cost	1,293,905
Carried on Balance Sheet at Cost - $46,498,596.		$ 47,456,070

Changes in Investments	*Balance December 31, 1965*	*Additions*	*Reductions*	*Balance December 31, 1966*
Canadian Pacific Investments Limited	$303,531,160	$ 7,289,000	$ —	$310,820,160
Canadian Pacific Air Lines, Limited	22,750,000	—	—	22,750,000
Other Subsidiary Companies	97,217,711	13,022,641	2,544,844	107,695,508
Other Investments	45,626,619	2,632,511	1,760,534	46,498,596
	$469,125,490	$ 22,944,152	$ 4,305,378	$487,764,264

Changes in Properties	*Balance December 31, 1965*	*Additions*	*Retirements and Transfers*	*Balance December 31, 1966*
Railway*	$2,160,235,248	$ 98,891,141	$37,840,522	$2,221,285,867
Telecommunications	104,850,165	5,043,604	236,962	109,656,807
Hotels	42,337,490	223,904	17,292,517	25,268,877
Steamships	62,748,985	1,082,196	573,466	63,257,715
Aircraft	54,030,593	7,738,722	17,214,556	44,554,759
Other Properties	12,782,125	172,128	1,012,915	11,941,338
	$2,436,984,606	$113,151,695	$74,170,938	$2,475,965,363

*Includes Securities—Leased Railway Companies at cost: December 31, 1965 $60,259,811; December 31, 1966 $59,110,085.

Source and Application of Funds
Accumulated Depreciation

Source and Application of Funds

Source of Funds:	
Income for the Year	$ 48,305,517
Depreciation	71,571,928
Deferred Income Taxes	3,200,000
Decrease in Investment Reserves	(4,964,602)
Funds from Operations	$118,112,843
Salvage from Retired Property	25,924,183
Long Term Loans	20,244,160
Short Term Loans	8,847,821
Federal Subsidy Allowance (Wages 1964/65)	7,118,066
Sundries (Net)	2,370,226
	$182,617,299
Application of Funds:	
Purchase of Shares	
Canadian Pacific Investments Limited	$ 7,289,000
Other Subsidiary Companies	10,477,797
Aircraft Deposits	36,299,035
Special Refundable Corporation Tax	3,554,400
Additions to Property	113,151,695
Dividends Declared	24,888,742
	$195,660,669
Decrease in Working Capital	$ 13,043,370

Accumulated Depreciation

	Balance Dec. 31, 1965	*Provided from Income*	*Net Retirements and Transfers*	*Balance Dec. 31, 1966*
Railway	$ 956,275,467	$ 59,591,424	$ 24,406,432	$ 991,460,459
Telecommunications	42,722,344	4,981,669	202,595	47,501,418
Hotels	32,302,074	608,740	11,762,210	21,148,604
Steamships	20,147,351	2,369,278	551,966	21,964,663
Aircraft	15,618,937	3,794,233	7,846,556	11,566,614
Other Properties	3,655,049	226,584	720,607	3,161,026
	$1,070,721,222	$ 71,571,928	$ 45,490,366*	$1,096,802,784

* After credits for salvage of $25,924,183.

Funded Debt
Debenture Stock
Capital Stocks

Funded Debt

	Rate	Date of Issue	Date of Maturity	Currency	Principal Outstanding
‡ Collateral Trust Bonds:					
† Convertible Seventeen Year	4%	Dec. 1, 1952	Dec. 1, 1969	Canadian	$ 25,511,000
† Convertible Twenty Year	3⅛%	April 1, 1950	April 1, 1970	Canadian	392,500
Eighteen Year	3¾%	Nov. 15, 1954	Nov. 15, 1972	Canadian	22,669,000
Thirty Year	3½%	Nov. 1, 1944	Nov. 1, 1974	United States	7,695,000
Twenty-Five Year	5%	Feb. 1, 1958	Feb. 1, 1983	Canadian	39,945,000
					$ 96,212,500
Equipment Trust Certificates:			Serially to		
Series "M"	3¼%	Jan. 2, 1954	Jan. 2, 1969	United States	$ 3,602,880
Series "O"	4½%	June 2, 1958	June 1, 1968	Canadian	4,000,000
Series "P"	5%	Jan. 6, 1966	Jan. 6, 1981	United States	25,220,160
					$ 32,823,040
					$129,035,540

‡ Secured by pledge of Perpetual 4% Consolidated Debenture Stock aggregating, in principal amount, $114,058,500.
† Conversion Privilege terminated.
Serial maturities of Equipment Trust Certificates in year 1967 totalling $5,602,880 included in Current Liabilities.

Funded Debt payable in United States funds has been stated at the rate of exchange at the date of the Balance Sheet, whereas in previous years such amounts were expressed in Canadian funds at par of exchange. This change results in a charge to Retained Income of $1,070,400.

Debenture Stock

Perpetual 4% Consolidated Debenture Stock:

	Sterling	United States Currency	Canadian Currency	Total
Issued:	£46,756,621	$72,837,500	$106,221,000	$406,607,388
Less: Pledged as collateral	—	7,837,500	106,221,000	114,058,500
	£46,756,621	$65,000,000	—	$292,548,888

Capital Stocks

Preference Stock—4% Non-Cumulative:
Issued: £28,203,477—
in amounts of £1 and multiples thereof — $137,256,921

Voting Rights:
Each £5 of stock entitles the holder to one vote.

Ordinary Stock:
Issued: 14,332,456 shares—$25 par value — $358,311,400

Voting Rights: Each share entitles the holder to one vote.

Debenture and Capital Stocks issued in currencies other than Canadian are carried at historical rates of exchange — sterling issues at $4.86⅔ and United States issues at $1.00. Converted to Canadian funds at the rate of exchange at the date of the Balance Sheet, the total amount of the Debenture Stock less pledged as collateral is $211,404,995 and the Preference Stock $85,174,500.

Transportation and Traffic Statistics

Freight Traffic		Year 1966	Year 1965	Increase or *Decrease* Amount or Number	Percent
Freight revenue	$	**509,892,011**	461,192,418	48,699,593	10.6
Tons—Revenue freight		**71,940,895**	67,411,452	4,529,443	6.7
Tons—All freight		**74,039,121**	69,589,347	4,449,774	6.4
Ton miles—Revenue freight		**37,950,302,000**	33,773,280,000	4,177,022,000	12.4
Ton miles—All freight		**38,639,703,000**	34,425,964,000	4,213,739,000	12.2
Averages per Mile of Road					
Freight revenue	$	**30,624**	27,671	2,953	10.7
Total freight train car miles		**97,009**	89,552	7,457	8.3
Ton miles—Revenue freight		**2,279,311**	2,026,332	252,979	12.5
Ton miles—All freight		**2,320,717**	2,065,492	255,225	12.4
Averages per Train Mile					
Freight revenue	$	**18.93**	17.66	1.27	7.2
Loaded freight car miles		**36.3**	35.2	1.1	3.1
Empty freight car miles		**22.6**	20.8	1.8	8.7
Car miles—All classes		**60.3**	57.4	2.9	5.1
Ton miles—Revenue freight		**1,409.2**	1,293.2	116.0	9.0
Ton miles—All freight		**1,434.8**	1,318.2	116.6	8.8
Gross ton miles		**2,937.8**	2,739.6	198.2	7.2
Averages per Loaded Car Mile					
Freight revenue	¢	**52.2**	50.1	2.1	4.2
Ton miles—All freight		**39.5**	37.4	2.1	5.6
Miscellaneous Averages					
Revenue per ton of freight	$	**7.09**	6.84	0.25	3.7
Revenue per ton mile of freight	¢	**1.34**	1.37	*0.03*	*2.2*
Miles hauled—Revenue freight		**527.5**	501.0	26.5	5.3
Miles hauled—All freight		**521.9**	494.7	27.2	5.5
Gross ton miles per train hour		**63,777**	58,861	4,916	8.4
Train speed—Miles per hour		**21.7**	21.5	.2	.9
Classification of Revenue Tonnage Carried					
Products of agriculture		**18,084,253**	14,286,264	3,797,989	26.6
Animals and animal products		**430,282**	441,906	*11,624*	*2.6*
Products of mines		**20,758,373**	21,503,817	*745,444*	*3.5*
Products of forests		**6,860,532**	6,593,780	266,752	4.0
Manufactures and miscellaneous		**25,417,595**	24,225,720	1,191,875	4.9
Total Carload Traffic		**71,551,035**	67,051,487	4,499,548	6.7
Total L.C.L. Traffic		**389,860**	359,965	29,895	8.3
Total Carload and L.C.L. Traffic		**71,940,895**	67,411,452	4,529,443	6.7

Transportation and Traffic Statistics

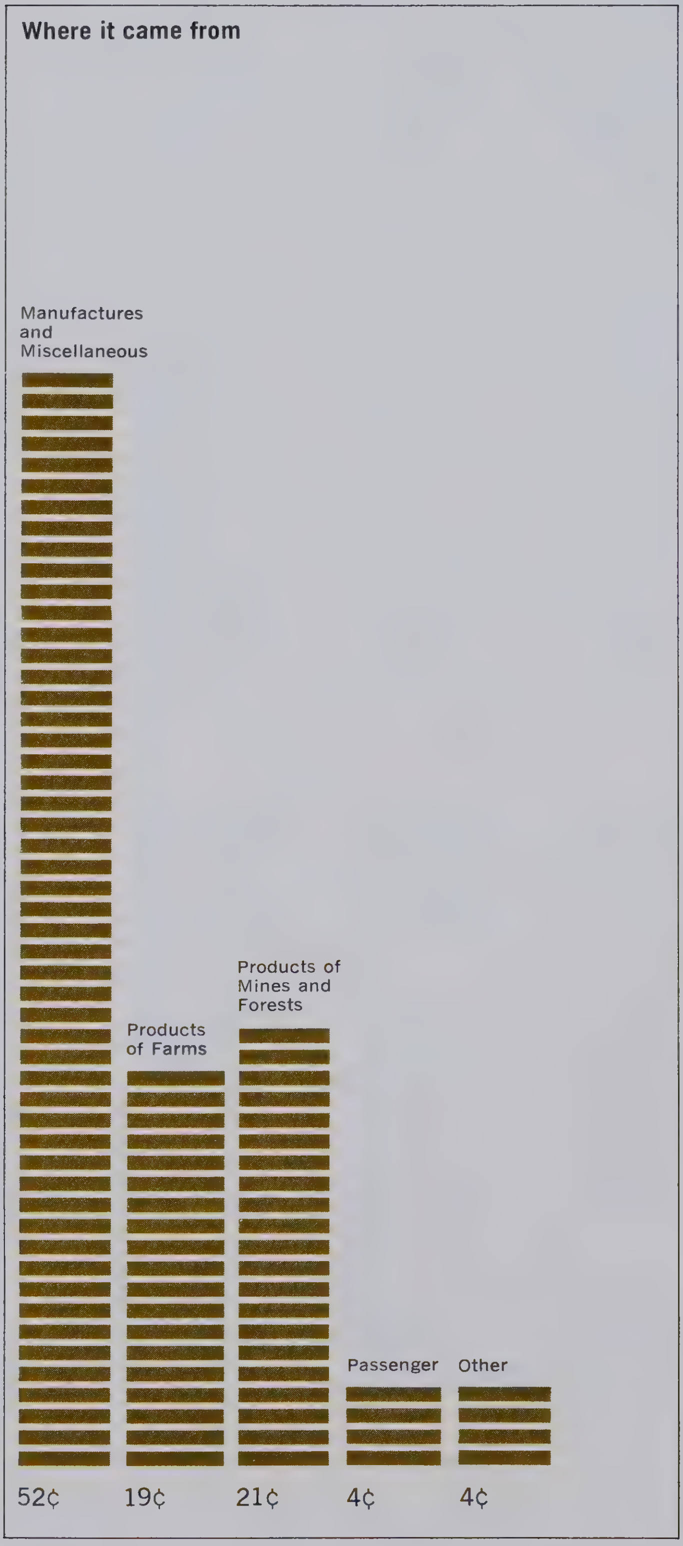
Passenger Traffic		Year 1966	Year 1965	Increase or *Decrease* Amount or Number	Percent
Passenger revenue	$	**16,059,291**	23,946,514	*7,887,223*	*32.9*
Passenger service train revenue	$	**23,220,138**	35,089,361	*11,869,223*	*33.8*
Revenue passengers carried		**6,018,668**	6,868,283	*849,615*	*12.4*
Revenue passenger miles		**557,345,000**	878,676,000	*321,331,000*	*36.6*
Averages per Train Mile					
Passenger revenue	$	**2.71**	2.70	0.01	.4
Passenger service train revenue	$	**3.92**	3.96	*0.04*	*1.0*
Car miles—All classes		**8.4**	9.4	*1.0*	*10.6*
Revenue passenger miles		**94.2**	99.2	*5.0*	*5.0*
Gross ton miles		**543.4**	613.5	*70.1*	*11.4*
Averages per Car Mile—Passenger					
Passenger revenue	¢	**42.8**	44.0	*1.2*	*2.7*
Revenue passenger miles		**14.8**	16.1	*1.3*	*8.1*
Miscellaneous Averages					
Revenue per passenger	$	**2.67**	3.49	*0.82*	*23.5*
Revenue per passenger mile	¢	**2.88**	2.73	0.15	5.5
Miles carried—Revenue passengers		**92.6**	127.9	*35.3*	*27.6*

Revenues and Expenses					
Averages per Mile of Road					
Railway revenues	$	**33,231**	31,046	2,185	7.0
Operating expenses	$	**27,036**	26,269	767	2.9
Net operating revenue	$	**6,195**	4,777	1,418	29.7
Averages per Train Mile					
Railway revenues	$	**16.84**	14.80	2.04	13.8
Operating expenses	$	**13.70**	12.52	1.18	9.4
Net operating revenue	$	**3.14**	2.28	0.86	37.7
Percent Operating Expenses to Railway Revenues		**81.33**	84.57	*3.24*	3.8
Payroll					
Charged operating expenses	$	**248,188,793**	242,577,223	5,611,570	2.3
Percent to railway revenues		**44.81**	46.83	*2.02*	*4.3*
Percent to operating expenses		**55.10**	55.37	*.27*	*.5*

Transportation and Traffic Statistics

	Year 1966	Year 1965	Increase or *Decrease* Amount or Number	Percent
Average Miles of Road Operated	**16,649.9**	16,667.2	*17.3*	*.1*
Train Miles				
Freight service	**26,930,407**	26,116,622	813,785	3.1
Passenger service:				
With locomotives	**3,277,094**	6,186,713	*2,909,619*	*47.0*
Rail Diesel Cars	**2,641,927**	2,673,631	*31,704*	*1.2*
Total	**5,919,021**	8,860,344	*2,941,323*	*33.2*
Total Transportation Service	**32,849,428**	34,976,966	*2,127,538*	*6.1*
Diesel Unit Miles				
Freight service	**63,154,265**	60,714,900	2,439,365	4.0
Passenger service	**7,619,223**	12,770,076	*5,150,853*	*40.3*
Switching service—Road and yard	**11,217,396**	10,991,221	226,175	2.1
Total Transportation Service	**81,990,884**	84,476,197	*2,485,313*	*2.9*
Car Miles				
Freight				
Loaded	**977,568,919**	921,149,323	56,419,596	6.1
Empty	**608,969,469**	543,167,624	65,801,845	12.1
Caboose	**28,654,633**	28,263,489	391,144	1.4
Total	**1,615,193,021**	1,492,580,436	122,612,585	8.2
Passenger				
Coach	**17,202,448**	24,407,678	*7,205,230*	*29.5*
Sleeping, parlour and observation	**20,331,715**	30,062,184	*9,730,469*	*32.4*
Baggage, mail and express	**10,268,186**	23,591,685	*13,323,499*	*56.5*
Dining and other	**4,062,516**	5,369,052	*1,306,536*	*24.3*
Total	**51,864,865**	83,430,599	*31,565,734*	*37.8*
Total Transportation Service	**1,667,057,886**	1,576,011,035	91,046,851	5.8
Gross Ton Miles				
Freight service	**79,117,018,000**	71,548,860,000	7,568,158,000	10.6
Passenger service	**3,216,329,000**	5,435,905,000	*2,219,576,000*	*40.8*
Total Transportation Service	**82,333,347,000**	76,984,765,000	5,348,582,000	6.9

The Railway Dollar 1966



Capital Appropriations for 1967
Approved to March 13, 1967

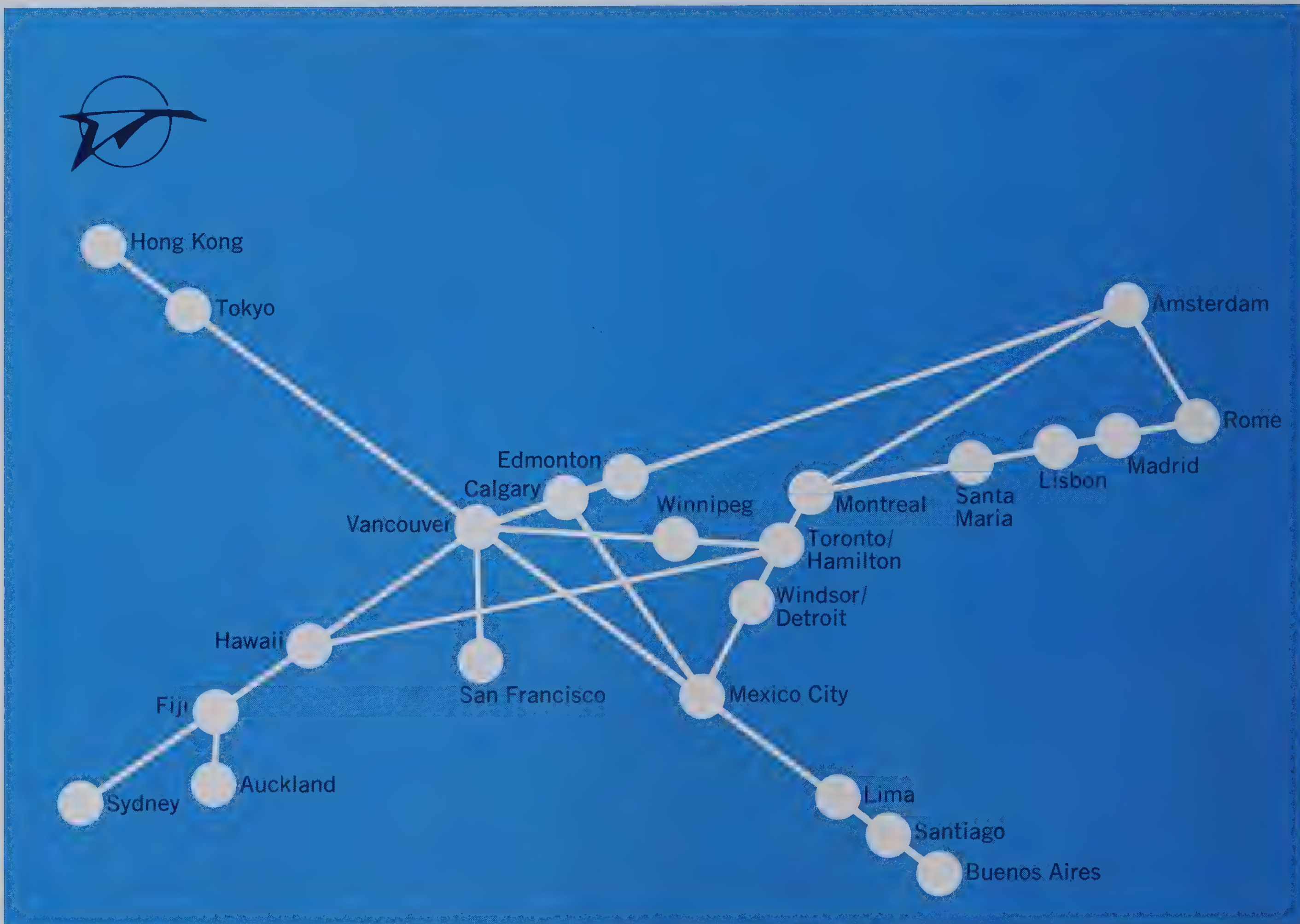
Station and Roadway Buildings		$ 4,181,273
Shops and Enginehouses		2,880,100
Bridges, Tunnels and Culverts		1,043,720
Existing Trackage		
Ties	$ 6,872,980	
Rails	13,074,100	
Other Track Material	485,790	
Ballast	1,715,700	
Signals	6,235,328	
		28,383,898
New Trackage		945,407
Other Road Facilities		2,239,150
Rolling Stock		
Locomotives	$13,736,988	
Car and Work Equipment	40,181,625	
		53,918,613
Shop Machinery		473,350
Highway Vehicles		616,629
Telecommunications		6,259,110
Hotels		275,466
Aircraft		8,700,000
Other Properties		2,990,000
		$112,906,716

Ten-Year Summary for the years 1957 to 1966

All dollars in thousands, except amounts per share

										Income from Railway and Miscellaneous Sources after Preference Dividends			Income from Canadian Pacific Investments Limited	
Year	Railway Revenues	Railway Expenses	Net Earnings	Ratio to Revenues	Other Income	Income before Fixed Charges	Fixed Charges	Income from Railway and Miscellaneous Sources	Preference Dividends *(Payable in Sterling)*	*Total*	*Per Ordinary Share*	*Dividends per Ordinary Share*	*Total*	*Dividends per Ordinary Share*
1957	$487,565	$449,319	$38,246	7.8%	$23,442	$61,688	$14,902	$46,786	$3,029	$43,757	$3.11	$1.50		
1958	467,411	430,919	36,492	7.8	13,409	49,901	16,998	32,903	3,068	29,835	2.09	1.50		
1959	477,806	441,760	36,046	7.5	12,678	48,724	17,435	31,289	3,029	28,260	1.97	1.50		
1960	457,106	423,431	33,675	7.4	12,402	46,077	17,106	28,971	3,096	25,875	1.81	1.50		
1961	465,490	427,839	37,651	8.1	11,717	49,368	16,907	32,461	3,204	29,257	2.04	1.50		
1962	453,169	424,191	28,978	6.4	20,460	49,438	17,080	32,358	3,429	28,929	2.02	1.50		
1963	477,198	441,936	35,262	7.4	21,402	56,664	16,538	40,126	3,407	36,719	2.56	1.50		
1964	510,145	466,680	43,465	8.5	16,789	60,254	16,184	44,070	3,390	40,680	2.83	1.50	$14,332	$1.00
1965	518,035	477,795	40,240	7.8	17,580	57,820	16,344	41,476	3,401	38,075	2.65	1.25	20,065	1.40
1966	553,830	503,610	50,220	9.1	18,037	68,257	19,951	48,306	3,390	44,916	3.13	1.50	20,065	1.40

Canadian Pacific Air Lines, Limited


Hong Kong
Tokyo
Amsterdam
Rome
Madrid
Lisbon
Santa Maria
Edmonton
Calgary
Vancouver
Winnipeg
Montreal
Toronto/ Hamilton
Windsor/ Detroit
Hawaii
San Francisco
Mexico City
Fiji
Auckland
Sydney
Lima
Santiago
Buenos Aires

1


Canadian Pacific

2

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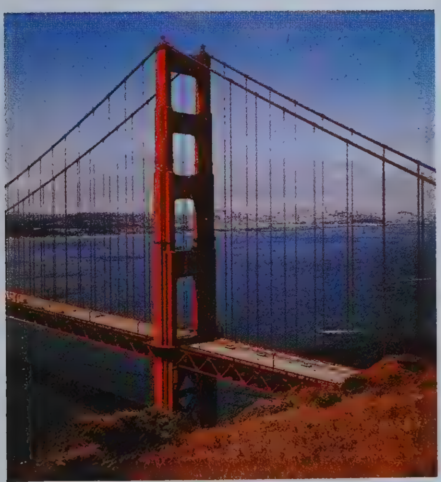
5

1 System route map
2 Super DC 8 Jet Empress
3 Jet engine maintenance
4 South Pacific
5 Tokyo
6 San Francisco
7 Sydney
8 Rome
9 Mexico City



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Board of Directors and Officers

Directors

Charles R. Bronfman, *President,*
The House of Seagram Ltd., Montreal

N. R. Crump, *Chairman and Chief Executive Officer,*
Canadian Pacific Railway Company, Montreal

J. C. Gilmer, *President and Chief Executive Officer,*
Canadian Pacific Air Lines, Limited, Vancouver

John B. Hamilton, QC, *Senior Partner,*
Hamilton, Torrance, Campbell, Nobbs and Woods, Toronto

Allard Jiskoot, *Partner,*
Pierson, Heldring & Pierson, Amsterdam, The Netherlands

Hugh A. Martin, *President,*
Marwest Hotel Company Limited, Vancouver

D. I. McNeill, QC, *Vice-President, Personnel,*
Canadian Pacific Railway Company, Montreal

J. M. Roberts, *Vice-President, Traffic,*
Canadian Pacific Railway Company, Montreal

George E. Sharpe, *President,*
Sharpe's Limited, Winnipeg

Ian D. Sinclair, *President,*
Canadian Pacific Railway Company, Montreal

Officers

N. R. Crump, *Chairman*

J. C. Gilmer, *President and Chief Executive Officer*

Ian D. Sinclair, *Vice-President*

H. D. Cameron, *Vice-President, International Affairs*

I. A. Gray, *Vice-President, Administration*

C. F. O'Brien, *Vice-President and Comptroller*

R. B. Phillips, *Vice-President, Operations*

H. B. Renwick, *Vice-President, Sales and Traffic*

H. B. Porteous, *Treasurer and Assistant Secretary*

T. F. Turner, *Secretary*

Executive Offices
1281 West Georgia Street,
Vancouver 5, Canada

Financial Results

Canadian Pacific Airlines recorded net operating income in excess of $7.9 million in 1966, a 24% increase over 1965.

Operating revenues reached a new high of $82.6 million, compared with $72.0 million the previous year. Operating expenses increased from $65.6 million in 1965 to $74.7 million in 1966. The increase in expenses was attributable largely to substantial increases in wage and related employee benefit costs, and to higher advertising and promotional expenditures required to cope with the intense competition in the international air travel market.

Net income in 1966 was $7.4 million, up slightly from the 1965 figure of $7.1 million. Your airline was subject to corporate income tax totalling $1.8 million in 1966, whereas in 1965 no income tax was payable, due to the offset of taxable income with losses of earlier periods.

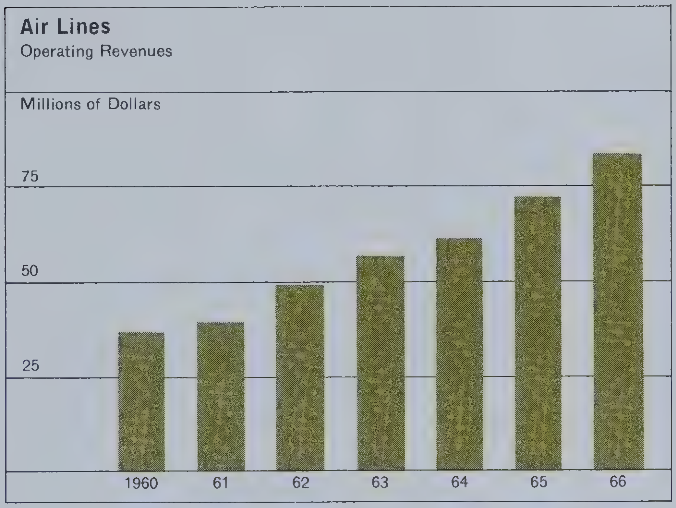
Revenues and Traffic

Passenger revenue increased 18% to $68.1 million as the world-wide boom in air travel continued unabated. During 1966 your airline carried 738,857 passengers, 17% more than in 1965. Significant improvements in passenger revenue were recorded in the following areas: North Atlantic services, bolstered by the first full year of operation of the new Eastern Canada-Amsterdam route plus a substantial volume of immigrant traffic to Canada from Italy, Spain, and Portugal; Canada-Hawaii services, benefiting from the continually growing popularity of Hawaii as a year-round vacation destination for Canadians; British Columbia-Yukon district where a high level of economic activity continued, notably in connection with plant construction and major hydro-electric and other primary resource projects.

Air cargo revenue in 1966 increased 27% to $6.3 million.

Air mail revenue, at $4.8 million, was up 29%.

Revenue passenger miles surpassed the billion mark for the second consecutive year, reaching 1.28 billion. The passenger load factor decreased slightly to 57.4% from 58.5% due to additional flight frequencies introduced during the year on most routes. Available ton miles increased



14% to 320 million, while revenue ton miles rose 15% to 155 million, resulting in an overall load factor of 48.4%, up slightly from the 1965 figure of 48.2%.

Your airline's many long routes linking five continents make possible high utilization of its jet aircraft fleet. This utilization averaged 14.2 hours per day in 1966, one of the highest in the industry.

Special low fares introduced on the North Atlantic and North Pacific routes caused a slight reduction in yield per passenger mile on the international routes. This was offset by an increased yield on domestic routes, so that overall system yield remained virtually unchanged at 5.49 cents per passenger mile.

Government Aviation Policy

Air policy pronouncements by the Federal Government have enabled your Company to move forward with confidence in long-range planning for route development and new equipment. The most important of these statements, made in 1965, for the first time confirmed Canadian Pacific Airlines as the Canadian flag carrier in the areas of the world it now serves.

The signing of a revised Canada-United States bilateral air agreement early in 1966 was followed by the award to your Company of an important new route, the non-stop service between Vancouver and San Francisco. This was inaugurated with daily jet service on January 30, 1967.

Fares and Services

Your airline was in the forefront in seeking new lower group fares on the North Atlantic in anticipation of the higher capacity jets soon to be delivered and in order to meet the increasing competition from non-scheduled charter carriers. Late in the year the North Atlantic airlines took a major step forward by agreeing to substantially lower fares for both affinity and non-affinity groups, some of which involved inclusive tour packages. These new lower fares will place trans-Atlantic travel within the reach of a vast mass market hitherto untapped by the scheduled airlines.

These developments follow earlier reductions in excursion and group fares on the North Atlantic introduced in April, 1966 which did much to boost passenger traffic during the year.

The proven popularity of non-stop flights between major cities was reflected in flight scheduling during the year. A significant development was introduction on October 30 of a non-stop service between Toronto and Honolulu, the only direct flight available from any interior or eastern part of North America to Hawaii.

In accordance with fluctuating seasonal traffic, your airline operated increased frequencies on the North Atlantic during the April to October period, and on the Canada-Hawaii service from mid-December to March. On this latter service there were ten flights per week, plus the new weekly non-stop Toronto-Honolulu service.

With the addition of the non-stop Toronto-Honolulu service, and the Vancouver-San Francisco route, the unduplicated system route mileage of your airline has increased to 57,346 from 51,770 in 1965.

Equipment and Facilities

Your Company is presently engaged in a $75 million program of fleet expansion to serve anticipated traffic growth on its 57,000 mile world route pattern. For international services, delivery will be taken of four DC8-63 jet aircraft, three in late 1967 and the fourth early in 1968. The Company has named this big jet the "Spacemaster", and each will carry 205 passengers, compared with 141 passengers in present C.P.A. jet aircraft. An additional DC8F-55 aircraft has been purchased for delivery late in 1967 to replace one held at present on a short-term lease. For domestic services, principally the British Columbia-Yukon district, six Boeing 737-200 jet aircraft have been ordered. These short-to-medium range twin jet aircraft will carry 99 passengers. Four are expected to be delivered late in 1968 and two early in 1969. In addition, your airline holds three delivery positions for the supersonic airliner now under development in the United States.

Anticipating the expanded servicing requirements of future aircraft fleets, initial contracts for construction of a $24 million overhaul and maintenance base at Vancouver International Airport have been awarded. This modern facility is designed for the supersonic era and is expected to meet the fleet maintenance requirements of the airline for the next 20 years. Actual construction is to start late in 1967 with completion planned for the Spring of 1969.

At the year end your airline was operating seven DC8 jet aircraft and nine propeller-driven aircraft.

Labour Relations

At December 31, 1966 your airline employed 3,402 people throughout its system, compared with 2,906 a year previously. Total 1966 expenditure for salaries, wages and related employee costs was $23.4 million, compared with $18.9 million in 1965.

A world-wide manpower shortage in all airline labour categories was compounded by a generally tight labour market in Canada, and special recruiting programs were therefore necessary. It is anticipated that the labour market will not change for some time and specific long-range employment procedures have been implemented for pilots, flight attendants, passenger agents, reservations agents and maintenance personnel.

Statement of Income
Statement of Retained Income

Statement of Income	1966	1965
Operating Revenues		
Transportation		
Passenger	$ 68,113,629	$ 57,885,979
Cargo	6,250,198	4,937,607
Mail	4,835,353	3,735,779
Charter	2,204,389	4,277,110
Total Transportation	$ 81,403,569	$ 70,836,475
Other	1,234,802	1,170,442
	$ 82,638,371	$ 72,006,917
Operating Expenses		
Flying Operations	$ 27,161,472	$ 23,428,448
Maintenance	10,098,705	10,936,558
Passenger Service	7,312,608	5,789,706
Aircraft and Traffic Servicing	8,484,302	7,207,316
Sales and Promotion	16,524,038	13,572,334
General and Administrative	3,213,893	2,482,776
Depreciation	1,724,820	1,741,299
Development	159,600	436,420
	$ 74,679,438	$ 65,594,857
Net Operating Income	$ 7,958,933	$ 6,412,060
Investment Income (Note 1)	1,246,455	683,192
	$ 9,205,388	$ 7,095,252
Provision for Income Taxes (Note 2)	1,830,000	—
Net Income	$ 7,375,388	$ 7,095,252

Statement of Retained Income	1966	1965
Balance or (Deficit), January 1	$ (5,994,248)	$ (13,178,573)
Net Income for the Year	$ 7,375,388	$ 7,095,252
Gain on Disposal of Fixed Assets	49,372	89,073
	$ 7,424,760	$ 7,184,325
Balance or (Deficit), December 31	$ 1,430,512	$ (5,994,248)

Assets	1966	1965
Current Assets:		
Cash	$ 2,569,183	$ 2,570,954
Deposits with Canadian Pacific Railway Company	19,329,801	11,936,978
Accounts Receivable	8,992,138	7,309,788
Accounts Receivable from Affiliated Companies	254,943	—
Materials and Supplies	2,216,698	2,223,126
Prepaid Expenses	1,278,200	516,966
	$ 34,640,963	$ 24,557,812
Other Assets:		
Deposits on Purchase of Aircraft	$ 324,000	$ —
Special Refundable Corporation Tax	308,610	—
Development Costs Unamortized	55,200	214,800
	$ 687,810	$ 214,800
Investments, at Cost	$ 324,425	$ 547,374
Properties, at Cost:		
Land, Buildings and Improvements	$ 3,483,175	$ 3,265,815
Aircraft and Related Support Equipment	19,587,653	18,966,763
	$ 23,070,828	$ 22,232,578
Less: Accumulated Depreciation	15,065,118	13,762,836
	$ 8,005,710	$ 8,469,742
	$ 43,658,908	$ 33,789,728

Approved on behalf of the Board

N. R. Crump, Director

J. C. Gilmer, Director

Notes to the Financial Statements:

1. Investment Income — Investment income includes interest totalling $995,083 (1965 $182,033) earned on deposits with Canadian Pacific Railway Company.

2. Income taxes — Income taxes for the year 1966 have been reduced by claiming maximum capital cost allowance totalling approximately $1,800,000 in excess of depreciation recorded in the accounts and by utilizing tax loss carry-forward amounting to $3,686,221.

No deferred income tax provision is required as accumulated depreciation recorded in the accounts to December 31, 1966 exceeds the capital cost allowances claimed to date for income tax purposes by approximately $900,000.

3. Preference Shares — Dividends in arrears from 1957 on the preference shares issued total $4,687,500.

4. Contingent Liability — Notes discounted with banks, in respect of tickets purchased under the time payment plan, total $2,790,159 (1965 $2,134,215).

5. Lease Commitments — Long term contracts for the lease of aircraft for varying periods up to 1978 total $48,500,000.

Liabilities	1966	1965
Current Liabilities:		
Accounts Payable and Wages Accrued	$ 13,077,865	$ 11,430,186
Accounts Payable to Affiliated Companies	—	1,624,924
Unearned Transportation Revenue	4,570,531	3,978,866
Income Taxes Payable (Note 2)	1,830,000	—
	$ 19,478,396	$ 17,033,976
Shareholders' Equity		
Capital Stock:		
Authorized		
2,000,000 5% Cumulative Redeemable Preference Shares of $5 Par Value		
4,000,000 Ordinary Shares of No Par Value		
Issued and Fully Paid		
1,950,000 Preference Shares (Note 3)	$ 9,750,000	$ 9,750,000
2,600,000 Ordinary Shares	13,000,000	13,000,000
	$ 22,750,000	$ 22,750,000
Retained Income (Deficit)	1,430,512	(5,994,248)
	$ 24,180,512	$ 16,755,752
	$ 43,658,908	$ 33,789,728

Auditors' Report to the Shareholders of Canadian Pacific Air Lines, Limited

We have examined the Balance Sheet of Canadian Pacific Air Lines, Limited as at December 31, 1966 and the Statements of Income and Retained Income for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1966 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change, which we approve, in accruing $1,100,000 for estimated employee vacation costs for 1966, whereas no similar accrual was made in 1965.

Price Waterhouse & Co., Chartered Accountants
February 27, 1967, Vancouver, Canada

Ten-Year Summary for the years 1957 to 1966

Figures in thousands, except cents and percentages

Year	Operating Revenues	Operating Expenses	Net Operating Income (Loss)	Revenue per Available Ton Mile*	Operating Cost per Available Ton Mile*	Available Ton Miles*	Revenue Ton Miles	Overall Load Factor*	Available Seat Miles	Revenue Passenger Miles	Passenger Load Factor	Revenue Passengers Carried
1957	$26,647	$29,379	$(2,732)	40.1¢	44.7¢	65,728	39,516	60.1%	600,008	317,998	52.9%	280
1958	28,580	30,759	(2,179)	39.0	42.2	72,860	43,690	59.9	658,416	362,886	55.1	250
1959	33,986	38,322	(4,336)	34.7	39.5	96,877	53,101	54.8	801,218	457,705	57.1	303
1960	36,152	41,317	(5,165)	24.4	28.3	146,177	61,910	42.4	937,848	541,723	57.8	343
1961	38,301	44,795	(6,494)	20.8	24.6	181,861	68,341	37.6	1,175,933	603,481	51.3	381
1962	48,642	49,848	(1,206)	22.1	23.1	215,668	88,537	41.1	1,510,659	799,111	52.9	462
1963	56,141	56,752	(611)	21.5	22.1	257,240	102,858	40.0	1,814,382	909,408	50.1	498
1964	61,494	57,927	3,567	23.7	22.7	255,285	114,304	44.8	1,777,434	983,066	55.3	541
1965	72,007	65,595	6,412	25.4	23.5	279,112	134,668	48.2	1,957,802	1,144,936	58.5	631
1966	82,638	74,679	7,959	25.5	23.4	319,572	154,780	48.4	2,229,564	1,280,008	57.4	739

* Data for 1957 to 1959 not comparable with other years due to varying types of equipment and operation.

Canadian Pacific Investments Limited

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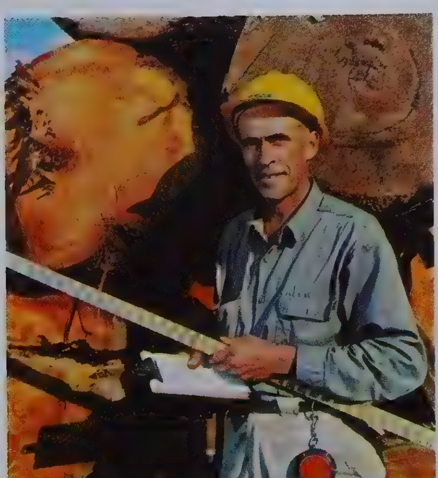

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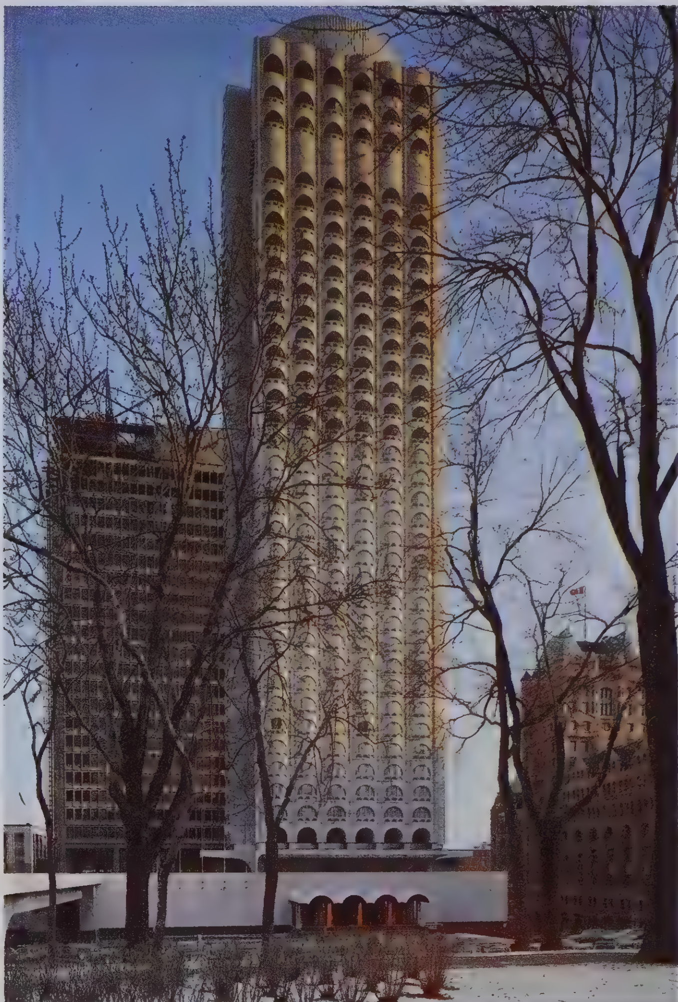
1 Cominco Sullivan Mine, Kimberley, B.C.
2 Oil drilling, Taber, Alta.
3 Logging, Vancouver Island, B.C.
4 Gas plant, Redland, Alta.

1 Le Château Champlain, Place du Canada, Montréal, Qué.
2 Chateau Lacombe, Edmonton, Alta.
3 Natural Resources Building, Calgary, Alta.
4 Plant installation, Summerlea Industrial Park, Montréal, Qué.



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Board of Directors and Officers

Directors

W. A. Arbuckle, *Chairman of the Canadian Board of* The Standard Life Assurance Company, Montreal

Alistair M. Campbell, *President,* Sun Life Assurance Company of Canada, Montreal

N. R. Crump, *Chairman and Chief Executive Officer,* Canadian Pacific Railway Company, Montreal

S. E. Nixon, *Executive Vice-President,* Dominion Securities Corporation Limited, Montreal

Ian D. Sinclair, *President,* Canadian Pacific Railway Company, Montreal

H. Greville Smith, CBE, *Industrialist,* Montreal

F. V. Stone, *Vice-President, Development,* Canadian Pacific Railway Company, Montreal

G. J. van den Berg, *Vice-President, Finance,* Canadian Pacific Railway Company, Montreal

Officers

N. R. Crump, *Chairman,* Montreal

F. V. Stone, *President,* Montreal

Ian D. Sinclair, *Vice-President,* Montreal

G. J. van den Berg, *Vice-President, Investments,* Montreal

J. C. Ames, *Secretary,* Montreal

James Holmes, *Treasurer,* Montreal

With the formative stages of the Company now largely completed, the financial statements of Canadian Pacific Investments Limited and subsidiary companies for the year ended December 31, 1966, with comparative figures for 1965, are presented in consolidated form. Explanations of the principles of consolidation are provided in the Notes to the Financial Statements.

Consolidated income, including equity interest in the 1966 income retained by all non-consolidated subsidiaries, amounted to $42.0 million, compared with $41.9 million in the previous year. Dividends declared by Canadian Pacific Investments Limited amounted to $20.1 million, the same as in 1965.

Capital stock in the amount of $7.3 million was issued during the year to provide funds for the purchase of hotel properties and real estate. At the year end, the total capital stock of Canadian Pacific Investments Limited outstanding and held by Canadian Pacific Railway Company was $310.8 million.

Oil, Gas and Other Minerals

The year 1966 was significant both for improved earnings and the adoption of policies to provide for future expansion of the activities of Canadian Pacific Oil and Gas Limited.

Prior to 1966, the prime objective of Canadian Pacific Oil and Gas had been development, in the Prairie Provinces, of mineral rights purchased from the Railway Company. This was achieved either by drilling on its own account or through farm-out agreements with other operators. Early in the year it was decided that, in order to maintain its position within the petroleum industry, the Company should broaden its scope by placing greater emphasis on exploration and development in other areas.

In line with this decision, permits on over 1.3 million acres were purchased in the Northwest Territories and 1,660 acres of Crown leases were acquired in northeast British Columbia. Arrangements were also completed for the exploration and acquisition, jointly with Central-Del Rio Oils Limited, of further acreage in the Northwest Territories. With a view to the longer term, the Company joined in an investment venture in Pan Arctic Oils Limited, which controls the petroleum and natural gas rights on some 43 million acres in Canadian Arctic islands.

Operations during the year included the further development of oil reserves in southern Alberta and southeast Saskatchewan and of gas reserves in southern and central Alberta. Towards year end, construction of a gas processing plant and a gathering system was completed in the Wintering Hills area of Alberta to provide for an increase in deliveries of gas to Trans-Canada Pipe Lines Limited.

Royalties received on the production of minerals from rights leased to other operators amounted to $8.6 million, an increase of $853,000. Lease rental revenue increased to $1.8 million from $1.2 million in 1965.

Revenue from the sale of oil, gas and natural gas liquids amounted to $6.6 million, an increase of $881,000. Daily oil production, including natural gas liquids, averaged 5,000 barrels during 1966, an increase of 1,000 barrels per day over the previous year. The daily production of gas averaged 58.3 million cubic feet, an increase over 1965 of 2.2 million cubic feet per day.

The shift in emphasis from development of the original mineral rights held by the Company to exploration in new areas is reflected in the substantially reduced drilling program in 1966. During the year, only 45 wholly-owned wells were drilled, of which 18 were completed as oil wells and 11 as gas wells. Canadian Pacific Oil and Gas Limited participated with others in the successful drilling of an additional 9 oil and 8 gas wells. At year end, net wells owned which were producing or capable of production totalled 208.9 oil and 204.8 gas wells.

The development of potash reserves in Saskatchewan continued at a rapid pace during 1966. In addition to three companies already in operation, five firms are presently constructing facilities and expect to be in production by 1970. All these companies either have obtained, or are negotiating for, production rights for part of their requirements in deposits owned by the Company.

Studies are being carried out in connection with the use of the large reserves of coal owned in Western Canada for power generation or export to Japanese markets.

A further 120 line mile geophysical survey in the offshore area of the North Sea was completed in 1966 in partnership with two other companies. Evaluation of all data gathered to date has been largely completed. With additional seismic work still to be undertaken, the drilling of the first well is not expected to begin before 1968.

Bow River Pipe Lines Limited, in which an interest of 50% is held, reported a successful year of operation in 1966.

Additional gathering lines were completed during the year and the feasibility of constructing further extensions is being examined. By year end, throughput was in excess of 12,000 barrels of oil daily.

Timberlands and Related Facilities

The depressed condition of lumber markets in the United States and Canada adversely affected most phases of timberland operations during 1966.

Fewer sales of timberlands and a decrease in investment income from minority holdings in allied industries mainly account for a reduction in the earnings of Pacific Logging Company Limited.

The consolidation and modernization of the lumber manufacturing complex at Slocan, B.C., was completed in 1966. This complex, together with the Company's logging activities in the area, now provides a modern and fully integrated operation in the Kootenay Division on the mainland of British Columbia.

Lumber production at Slocan amounted to 41 million board feet in 1966, an increase of 5 million board feet over the previous year, but still below the annual level anticipated. The new manufacturing facilities at Slocan are expected to increase efficiency and thus contribute to an improvement in future earnings. During the year, 44 miles of roads were constructed to service logging operations in the Kootenay Division.

On Vancouver Island approximately 1.1 million seedlings were planted on 3,200 acres of previously logged land and 68 miles of logging roads were constructed during the year. A further 2,100 acres of second-growth lands were fertilized in conjunction with Cominco Ltd., using fertilizers produced by that Company.

A log dumping and sorting ground was established at Ladysmith, B.C., on the east coast of Vancouver Island, and negotiations are currently underway for the joint operation of another to the south. The location of these new facilities affords better access to mainland and other markets for logs produced on Vancouver Island.

Hotels and Restaurants

The expansion of operations and the renovation and modernization of facilities highlighted the activities of Canadian Pacific Hotels Limited in 1966. The Company's new hotel in Montreal, Le Château Champlain, and the Chateau Lacombe in Edmonton, which it is operating under a management agreement, began partial operations in December. Official opening ceremonies at these hotels took place early in 1967.

In line with the reorganization of hotel and restaurant operations, Le Château Frontenac in Quebec City and the Hotel Saskatchewan in Regina were purchased from Canadian Pacific Railway Company on January 1, 1966.

Business at the majority of hotels and restaurants improved in 1966. However, the increase in gross revenues, including those from the properties acquired in mid-1965 and at the beginning of 1966, was offset to a large extent by the heavy expenses associated with commencement of operations at Le Château Champlain in December and with renovation and modernization programs at the various hotels.

Major improvements to properties during the year included the renovation of additional guest rooms and the installation of air-conditioning in all remaining facilities at the Royal York Hotel, the modernization of further guest accommodation at Le Château Frontenac and the start of a program of renovating and refurnishing the major part of the Empress Hotel in Victoria. Arrangements were also completed, after the year end, for the construction of a 42-unit extension to Le Baron Motor Hotel in Sherbrooke, which is operated under lease.

Real Estate

Completion of new commercial buildings and substantial progress in planning for the potential development of downtown properties in major cities across Canada highlighted the real estate activities of Marathon Realty Company Limited during 1966.

The Natural Resources Building, which forms the first stage of a plan for the redevelopment of station grounds in downtown Calgary, was completed in September. Construction in the area will continue through 1967 with the erection, in partnership with Husky Oil Canada Ltd., of a 600-foot observation restaurant tower to be called the Husky Tower.

The Harbour Park Shopping Centre at Nanaimo, B.C., which was partially opened in December, has recently been completed and is now in operation. Construction of the 28-storey office building in Place du Canada, Montreal, continued on schedule during the year and it is expected to

be available for occupancy by mid-1967. Commercial buildings are under construction or in the planning stage for station ground properties in various centres across Canada. During the year, numerous parcels of land were declared surplus to transportation requirements and are now being assessed and studied for their development potential.

Settlement during 1966 of the long-standing dispute between Canadian Pacific and the National Harbours Board respecting title to properties in downtown Vancouver made it possible to advance plans for a large-scale waterfront air rights development, which has had widespread publicity as "Project 200". Progress was also made during the year toward plans for large downtown redevelopment of properties in Montreal and Toronto.

Active marketing of the Summerlea Industrial Park in Montreal, Mayland Industrial Park in Calgary, and Strathcona Industrial Park in Edmonton, has resulted in the establishment of substantial plants on these properties and the outlook for obtaining further industries is good. Studies have also indicated the feasibility of industrial development of land owned at Sudbury, Ontario.

Emphasis on the policy of upgrading the investment in agricultural land holdings in Western Canada continued to produce improved results throughout the year.

Financing

In 1966 Canadian Pacific Securities Limited commenced raising monies which were made available to four subsidiaries of Canadian Pacific Investments Limited. Total borrowings outstanding at year end amounted to $23 million.

Cominco Ltd.

Net profit of this controlled subsidiary, after consolidation of its accounts with those of its wholly-owned subsidiaries and of Pine Point Mines Limited, amounted to $49.2 million, or $2.95 per share, after providing $14.6 million for income and mining taxes, $15.7 million for depreciation of plant and depletion, and $8.7 million for the minority interest in net earnings of Pine Point.

Dividends were declared at a rate of $1.80 per share, the same as the previous year, and the total dividends taken up by Canadian Pacific Investments Limited and included in Investment Income for the year 1966 amounted to $15.6 million. A further amount of $9.9 million, representing equity interest in the 1966 net earnings of Cominco Ltd., has also been reflected in the figure of consolidated income for the year.

Refined metal production of the smelter and refineries of Cominco continued at high levels throughout the year with 47% of the lead and zinc produced being derived from the treatment of ores and concentrates shipped by Pine Point Mines Limited in which the Company holds a 69% interest. Operation of the Pine Point concentrator which commenced in December, 1965, continued at planned levels throughout 1966. During the year Pine Point Mines Limited acquired the adjoining property of Pyramid Mining Company Limited which added substantially to its ore reserves.

With the coming into operation during the year of new facilities as well as expansion of existing plants, production of fertilizers reached new high levels. At the Saskatchewan potash project, sinking of the two production shafts was about half completed and surface plant design was well advanced at year end.

At the Magmont mine in southeast Missouri, jointly owned by Cominco American Incorporated, a wholly-owned subsidiary of Cominco, and Magnet Cove Barium Corporation, sinking of the shaft was nearing completion at year end and good progress was being made on the construction of the concentrator. Construction of the zinc and sulphuric acid plants of Cominco Binani Zinc Limited at Kerala, South India, in which Cominco has a 40% interest, was practically completed at year end and production is anticipated to commence early in the year 1967. The lead smelter of Mitsubishi Cominco Smelting Company Limited, Japan, in which Cominco owns a 45% interest, commenced operation in October.

Other Investments

Details of the other investments of Canadian Pacific Investments Limited at December 31, 1966 are set out on pages 55 and 56, together with comparative data for 1965.

The investment in bonds, debentures and notes was reduced to provide funds for further purchases of common and preferred stocks. The increase in the book value of capital stocks held amounted to $14.7 million. Major purchases were $4.3 million of MacMillan Bloedel Limited, $5.3 million of Rio Algom Mines Limited, and $4.7 million of Trans-Canada Pipe Lines Limited. The investment of $1.3 million in the non-voting capital stock of The Investors Group was sold during the year.

Canadian Pacific Investments Limited and Subsidiary Companies

Statement of Consolidated Income

	1966		1965	
Oil, Gas and Other Minerals				
Income	$18,222,962		$15,345,903	
Expenses:				
Operating	$ 2,667,703		$ 1,686,387	
Depletion, Depreciation and Amortization	4,473,943		3,169,554	
Provision for Income Taxes	2,268,339		2,757,521	
	$ 9,409,985	$ 8,812,977	$ 7,613,462	$ 7,732,441
Timberlands and Related Facilities				
Income	$10,250,336		$10,846,371	
Expenses:				
Operating	$ 7,009,845		$ 6,452,521	
Depletion, Depreciation and Amortization	1,843,592		1,416,531	
Provision for Income Taxes	899,690		1,530,778	
	$ 9,753,127	497,209	$ 9,399,830	1,446,541
Hotels and Restaurants				
Income	$27,616,297		$16,757,741	
Expenses:				
Operating	$24,710,775		$14,651,027	
Depreciation	1,631,145		1,007,142	
Provision for Income Taxes	650,000		492,000	
	$26,991,920	624,377	$16,150,169	607,572
Real Estate				
Income	$ 2,424,539		$ 2,039,925	
Expenses:				
Operating	$ 1,517,825		$ 929,644	
Depreciation	112,485		62,987	
Provision for Income Taxes	385,404		514,494	
	$ 2,015,714	408,825	$ 1,507,125	532,800
Miscellaneous				
Income	$ 2,109,777		$ 1,565,089	
Expenses:				
Operating	$ 1,562,056		$ 903,772	
Depreciation	103,570		76,061	
Provision for Income Taxes	222,075		292,627	
	$ 1,887,701	222,076	$ 1,272,460	292,629
Financing				
Income	$ 648,524			
Expenses	$ 560,837			
Provision for Income Taxes	45,600			
	$ 606,437	42,087		—
		$10,607,551		$10,611,983
Investment Income				
Income				
Dividends:				
Cominco Ltd.	$15,571,970		$15,435,422	
Other Partly-owned Subsidiary Companies	197,417		129,117	
Other Companies	5,392,100		4,700,996	
	$21,161,487		$20,265,535	
Interest	920,188		1,332,792	
	$22,081,675		$21,598,327	
Expenses	$ 157,183		$ 196,209	
Provision for Income Taxes	486,000		744,000	
	$ 643,183	21,438,492	$ 940,209	20,658,118
		$32,046,043		$31,270,101
Equity in Income of Partly-owned Subsidiary Companies, less dividends included above		9,962,587		10,655,127
Consolidated Income		$42,008,630		$41,925,228

Expenses include depletion: 1966—$3,789,958; 1965—$2,571,307

Assets	1966	1965
Current Assets:		
Cash and Temporary Investments	$ 2,346,041	$ 2,739,765
Deposits with Canadian Pacific Railway Company	2,140,075	1,121,812
Dividends and Accrued Interest Receivable		
Cominco Ltd.	7,811,655	7,726,295
Other	915,173	775,295
Accounts Receivable	8,429,020	6,888,612
Inventories, at the lower of cost or market	2,357,635	1,916,866
Prepaid Expenses	129,814	62,792
	$ 24,129,413	$ 21,231,437
Other Assets:		
Deferred Accounts Receivable	$ 779,391	$ 1,067,991
Land Contracts Receivable	494,263	560,268
Special Refundable Corporation Tax	349,295	—
Other	1,957,678	780,161
	$ 3,580,627	$ 2,408,420
Investments:		
Cominco Ltd.	$145,190,738	$123,742,559
Other Partly-owned Subsidiary Companies	3,413,178	3,919,516
Other Investments, at cost	210,265,451	206,549,117
	$358,869,367	$334,211,192
Properties, at cost:		
Oil, Gas and Other Minerals	$ 70,694,121	$ 59,270,209
Timberlands and Related Facilities	32,224,739	31,624,672
Hotels	54,385,126	32,194,993
Real Estate	19,084,319	13,533,177
Miscellaneous	3,552,939	3,315,249
	$179,941,244	$139,938,300
Less: Accumulated Depreciation, Depletion and Amortization (depletion—1966 - $9,408,373; 1965 - $5,998,151)	19,914,225	12,175,458
	$160,027,019	$127,762,842
Approved on behalf of the Board:	$546,606,426	$485,613,891

F. V. Stone, Director
Ian D. Sinclair, Director

Auditors' Report to the Shareholders of Canadian Pacific Investments Limited

We have examined the Consolidated Balance Sheet of Canadian Pacific Investments Limited and Subsidiary Companies as at December 31, 1966 and the Consolidated Statements of Income and Retained Income for the year then ended (as shown on pages 51 to 56 inclusive). Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Liabilities		1966	1965
Current Liabilities:			
Accounts Payable and Accrued Charges			
Canadian Pacific Railway Company		$ 1,330,293	$ 1,982,326
Other		8,951,473	6,972,943
Notes and Accrued Interest Payable		22,975,828	—
Income and Other Taxes Payable		2,391,533	2,404,807
Dividend Payable		10,032,719	12,899,210
		$ 45,681,846	$ 24,259,286
Deferred Liabilities:			
Severance Taxes Payable		$ 3,090,405	$ 3,856,822
Other		102,521	33,376
		$ 3,192,926	$ 3,890,198
Deferred Credits:			
Deferred Income Taxes		$ 14,172,787	$ 11,219,619
Unapplied Rentals		809,351	724,740
Other		—	261,385
		$ 14,982,138	$ 12,205,744
Shareholders' Equity:			
Capital Stock—			
Authorized—40,000,000 Common Shares of No Par Value			
Issued—			
To December 31, 1965	30,353,116 shares		
During 1966	728,900 shares		
	31,082,016 shares	$310,820,160	$303,531,160
Paid-in Surplus		81,800,314	81,800,314
Retained Income		90,129,042	59,927,189
		$482,749,516	$445,258,663
		$546,606,426	$485,613,891

In our opinion, these financial statements present fairly the financial position of the companies as at December 31, 1966 and the results of their combined operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the changes, which we approve, in the methods of accounting for investments in and income of subsidiary companies as described in Note 1 to the financial statements.

Price Waterhouse & Co., Chartered Accountants.
Montreal, March 6, 1967.

Statement of Consolidated Retained Income

	1966	1965
Balance, January 1	**$ 59,927,189**	$ 37,559,800
Add:		
Income for the year	**$ 42,008,630**	$ 41,925,228
Equity in Gain on Exchange of Mining Interests by Unconsolidated Subsidiary	**7,668,354**	—
Net Gain on Sale of Securities	**686,842**	832,245
	$ 50,363,826	$ 42,757,473
	$110,291,015	$ 80,317,273
Deduct:		
Dividends	**$ 20,065,438**	$ 20,065,438
Net Loss on Disposal of Properties	**7,230**	323,796
Miscellaneous (Net)	**89,305**	850
	$ 20,161,973	$ 20,390,084
Balance, December 31	**$ 90,129,042**	$ 59,927,189

Notes to the Consolidated Financial Statements

1. Principles of Consolidation — The accounts of all wholly-owned subsidiaries are included in the consolidated financial statements for 1966. The equity of Canadian Pacific Investments Limited in the income of all partly-owned subsidiaries is reflected in the Statement of Consolidated Income. Due to the existence of substantial minority interests, the accounts of the partly-owned subsidiaries have not been consolidated as to assets and liabilities.

The carrying value of the investments in partly-owned subsidiaries is stated as follows:

Cominco Ltd. — (52.01% owned at December 31, 1966)
This investment, previously carried at cost, is now stated at the sum of the following:

(1) the book value of the equity in the underlying assets as shown by the consolidated financial statements of Cominco Ltd. at December 31, 1963 ($11.75 per share), in respect of 8,412,500 shares acquired from Canadian Pacific Railway Company in that year. The excess of the value thus established over the acquisition cost, amounting to $81,800,314, has been credited to paid-in surplus:

(2) cost in respect of 267,117 shares acquired from other sources, and

(3) the equity of Canadian Pacific Investments Limited in the consolidated undistributed income of Cominco Ltd. and of that company's unconsolidated subsidiaries from January 1, 1964.

Other partly-owned subsidiaries —
These investments are stated at cost, plus the company's equity in the undistributed income of these companies since the dates of their acquisition from Canadian Pacific Railway Company.

Figures for 1965 have been restated on a comparable basis.

2. Contingent Liability — Pacific Logging Company Limited, a wholly-owned subsidiary, received Notices of Re-assessment, dated June 21, 1966, in respect of the taxation years 1963 and 1964, from the Taxation Division of the Department of National Revenue, Canada. The additional tax assessed, with interest and penalties, amounts to approximately $1,900,000. On advice of counsel these re-assessments will be contested vigorously and Notices of Objection to the re-assessments have been sent to the Minister of National Revenue. The additional tax has not been paid or provided for but security for payment has been given to the Minister of National Revenue in the form of a Note of Pacific Logging guaranteed by Canadian Pacific Investments Limited.

3. Gain on Exchange of Mining Interests by Unconsolidated Subsidiary — On June 15, 1966, Pine Point Mines Limited, a partly-owned subsidiary of Cominco Ltd., issued 526,400 shares from its treasury to Pyramid Mines Limited (N.P.L.) in exchange for certain mining properties of that company. A value of $50 each was attributed to the shares issued (quoted market value on the day was $63.25), so that the recorded cost of the properties is $26,320,000. The effect of the transaction in the consolidated accounts of Cominco Ltd. is that a 9.12% interest in the net assets of Pine Point Mines Limited at June 18, 1966, has been relinquished by way of a dilution of Cominco's equity in exchange for 69.12% interest in the properties acquired from Pyramid Mines Limited. This exchange has resulted in a gain of $14,744,000, credited to consolidated retained earnings of Cominco Ltd., representing the difference between the historical carrying value of the interest relinquished and the recorded value of the interest acquired in the new properties. No depletion has been provided on the new properties as they are not yet in production.

The equity of Canadian Pacific Investments Limited in the above gain, amounting to $7,668,354, has been credited to retained income in the accompanying accounts.

Other Investments, December 31

		1966		1965		1966
Investments of Canadian Pacific Investments Limited		*Number of Shares*	*Cost*	*Number of Shares*	*Cost*	*Approximate Market Value*
Stocks						
Preferred:						
Alcan Aluminium Limited	Cumulative Redeemable Convertible Preferred, 4¼%–Par Value $40	—	$ —	75,000	$ 3,084,375	$ —
Canadian Power & Paper Securities Limited	Cumulative Redeemable Preferred $1.30, Series "A"–Par Value $25	**25,000**	**600,000**	25,000	600,000	**450,000**
Canborough Limited	Cumulative Redeemable Preferred, Series "A", 5¼%–Par Value $100	**12,500**	**1,250,000**	12,500	1,250,000	**1,087,500**
	Cumulative Redeemable Preferred, Series "B", 5%–Par Value $100	**4,150**	**415,000**	4,150	415,000	**344,450**
The Consumers' Gas Co.	Cumulative Redeemable, 5%–Par Value $100	**12,500**	**1,250,000**	12,500	1,250,000	**1,150,000**
Debhold (Canada) Limited	Cumulative Redeemable Preferred, Series "A", 6%–Par Value $100	**15,000**	**1,500,000**	—	—	**1,395,000**
Great Britain & Canada Investment Corporation	Cumulative Redeemable Preferred, 5%–Par Value $50	**25,485**	**1,260,757**	25,485	1,260,757	**1,000,286**
Husky Oil Canada Ltd.	Cumulative Redeemable Preferred, Series "B", 6%–Par Value $50	**10,655**	**544,929**	8,730	443,289	**511,440**
	Cumulative Redeemable Convertible Preferred, Series "C", 5¾%–Par Value $50	**15,000**	**750,000**	—	—	**810,000**
Industrial Acceptance Corporation Limited	Cumulative Redeemable Preferred, 5¾%–Par Value $25	**20,000**	**500,000**	—	—	**460,000**
Northern and Central Gas Company Limited	Cumulative Redeemable First Preference $2.60, 1965 Series–Par Value $50	**15,000**	**750,000**	7,500	375,000	**675,000**
Power Corporation of Canada Limited	Cumulative Redeemable First Preference 4¾%, 1965 Series–Par Value $50	**13,000**	**617,500**	13,000	617,500	**511,875**
Rio Algom Mines Limited	Cumulative Redeemable First Preference $5.80, Series "A", Par Value $100	**11,000**	**1,088,500**	—	—	**1,076,625**
Trans-Canada Pipe Lines Limited	Cumulative Redeemable Preferred, $2.80, Par Value $50	**30,000**	**1,485,000**	—	—	**1,380,000**
Union Gas Co. of Canada, Ltd.	Cumulative Redeemable Preferred, Series "C", 5%–Par Value $50	**50,000**	**2,500,000**	50,000	2,500,000	**2,275,000**
Victoria & Grey Trust Company	Cumulative Redeemable Preferred, Series "A", 5.35%–Par Value $50	**10,000**	**500,000**	—	—	**460,000**
Other			**2,374,136**		2,152,886	**2,046,480**
Common:						
Central-Del Rio Oils Limited	No Par Value	**1,597,010**	**13,807,119**	1,578,310	13,588,669	**20,761,130**
The Great Lakes Paper Company Limited	No Par Value	**138,810**	**3,667,979**	137,310	3,625,203	**3,157,928**
The Huron & Erie Mortgage Corporation	Par Value $2	**528,260**	**6,953,456**	528,260	6,953,456	**4,622,275**
Husky Oil Canada Ltd.	Par Value $1	**448,600**	**4,881,996**	448,600	4,881,996	**5,719,650**
The Investors Group	Class "A", Par Value 5¢	—	—	121,375	1,307,847	—
MacMillan Bloedel Limited	No Par Value	**1,510,372**	**48,384,295**	1,339,175	44,034,883	**35,116,149**
Montreal Trust Company	Par Value $1	**329,500**	**6,640,634**	329,500	6,640,634	**4,530,625**
Provincial Bank of Canada	Par Value $10	**116,230**	**6,235,360**	116,230	6,235,360	**4,445,798**
Rio Algom Mines Limited	No Par Value	**599,690**	**9,544,274**	430,690	5,297,055	**14,242,637**
Texas Gulf Sulphur Company	No Par Value	**60,100**	**3,680,179**	60,100	3,680,179	**6,824,355**
Trans-Canada Pipe Lines Limited	Par Value $1	**1,157,752**	**44,850,085**	1,060,000	41,658,364	**28,364,924**
Union Carbide Canada Limited	No Par Value	**527,250**	**12,624,329**	512,050	12,289,200	**10,347,281**
Other			**1,239,148**		1,089,148	**1,499,228**

Continued on next page

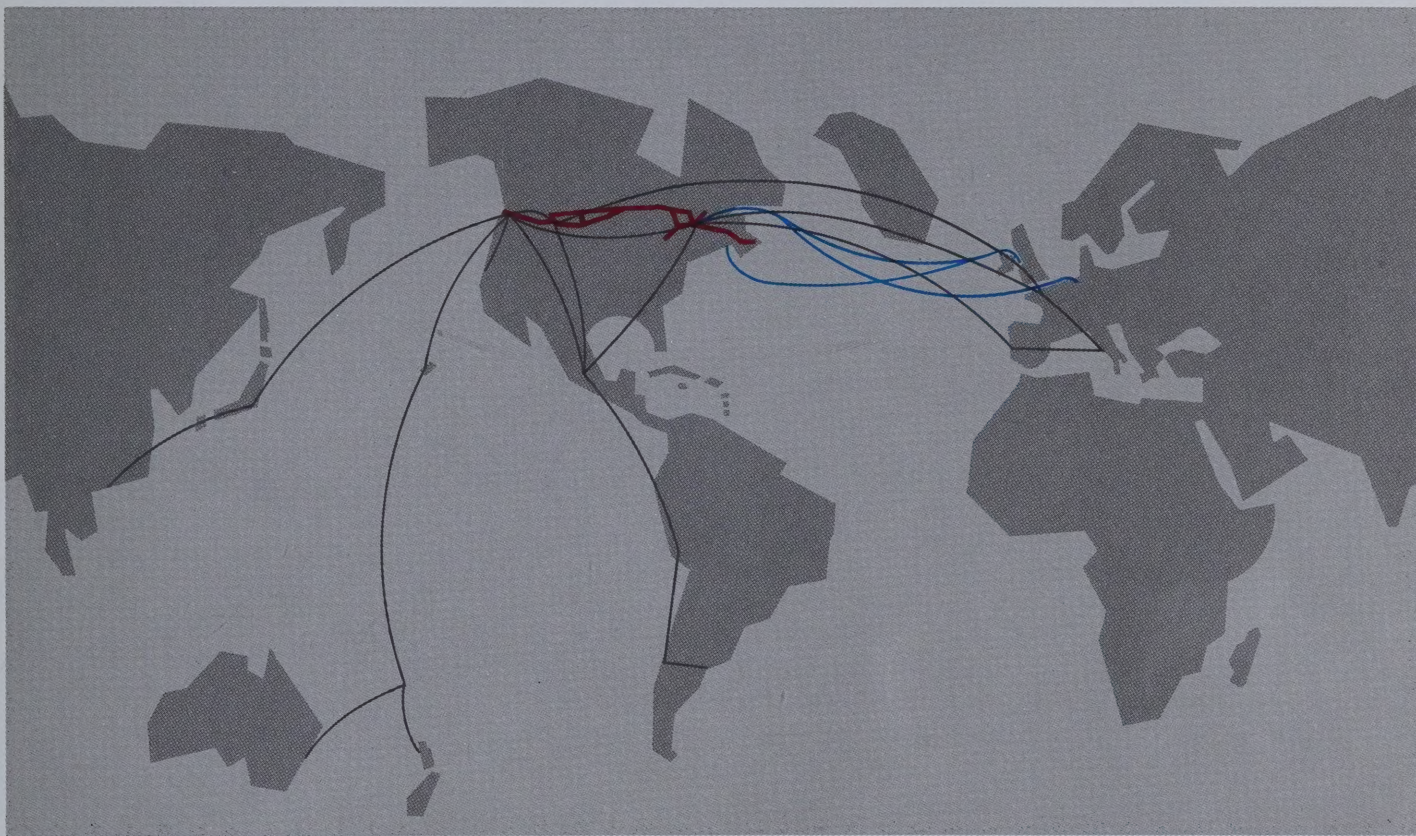
Other Investments, December 31 — Continued

		1966		1965		1966
		Principal Amount	*Cost*	*Principal Amount*	*Cost*	*Approximate Market Value*
Bonds, Debentures and Notes						
Bell Telephone Company of Canada	First Mortgage,					
	Series "F"–3¼% due 15/2/73	**$6,000,000**	**$ 5,196,250**	$6,000,000	$ 5,196,250	**$ 5,070,000**
	Series "G"–3⅜% " 1/6/75	**350,000**	**294,875**	350,000	294,875	**279,562**
	Series "I"–3½% " 1/5/76	**600,000**	**507,000**	600,000	507,000	**477,000**
British Columbia Electric Company Limited	First Mortgage,					
	Series "A"–3¼% " 2/1/67	—	—	500,000	483,900	—
	Series "C"–3¾% " 1/4/68	—	—	950,000	910,213	—
	Series "D"–3¾% " 1/2/69	**1,000,000**	**948,000**	1,000,000	948,000	**947,500**
T. Eaton Realty Company Limited	First Mortgage–3½% due 15/3/68	**1,800,000**	**1,717,425**	2,000,000	1,908,250	**1,728,000**
Government of Canada	3½% Bonds due 1/2/66	—	—	100,000	98,030	—
	3¾% " " 1/9/66	—	—	1,500,000	1,485,000	—
	2¾% " " 15/6/67–68	—	—	4,650,000	4,315,150	—
The Hydro-Electric Power Commission of Ontario	3% " " 15/1/68	—	—	250,000	237,813	—
	3% " " 1/11/69	—	—	500,000	458,137	—
	3% " " 1/4/70	—	—	525,000	473,812	—
Industrial Acceptance Corporation Limited	6.90% Note due 1/2/67	**500,000**	**500,000**	—	—	**500,000**
C. Itoh & Company Limited	Convertible Unsecured Debentures–6¼% due 31/3/84	U.S. **1,000,000**	**1,081,250**	1,000,000	1,081,250	**924,500**
Town of Jacques Cartier (Gtd. by Prov. of Que.)	3½% Serial Bond, due 1/2/66	—	—	1,000,000	979,500	—
Province of Manitoba	Debentures–3% due 15/9/68	—	—	1,000,000	939,125	—
Province of Nova Scotia	6.56% Note due 10/1/67	**1,000,000**	**1,000,000**	—	—	**1,000,000**
Quebec Hydro-Electric Commission	3% Bonds due 1/9/69	**900,000**	**820,125**	900,000	820,125	**821,250**
	3.563% Note due 4/1/66	—	—	450,000	449,781	—
The Municipality of Metropolitan Toronto	3½% Debentures due 15/6/69	**350,000**	**327,880**	350,000	327,880	**327,250**
	3½% " " 1/12/69	**200,000**	**186,100**	200,000	186,100	**185,000**
City of Winnipeg	Sinking Fund Debentures–2¾% due 1/12/67	**100,000**	**94,680**	100,000	94,680	**96,750**
	Sinking Fund Debentures–3¼% due 1/11/68	—	—	500,000	470,500	—
Other		**1,163,000**	**1,057,373**	2,778,000	2,577,867	**1,043,915**
			$193,625,634		$190,474,039	**$168,666,363**

Investments of Wholly-Owned Subsidiaries

		Number of Shares		*Number of Shares*		
Stocks						
Common:						
Central-Del Rio Oils Limited	No Par Value	**1,696,754**	**$ 14,848,844**	1,696,754	$ 14,848,844	**$ 22,057,802**
Other			**1,164,050**		1,138,415	*
		Principal Amount		*Principal Amount*		
Bonds, Debentures and Notes						
Foundation Scottish Properties Ltd.	6% Note	**$ 600,000**	**600,000**	$ —	—	*
Other		**26,923**	**26,923**	97,819	87,819	*
			$ 16,639,817		$ 16,075,078	**$ 22,057,802**
			$210,265,451		$206,549,117	**$190,724,165**

* Unquoted



Railway
Steamships
Airlines

85,000 miles of integrated land-sea-air routes serving five continents show the global extent and impact of Canadian Pacific total transportation.